

Review of the Alabama Child Support Guidelines: Updating the Child Support Schedule

Submitted to:
Alabama Advisory Committee on
Child Support Guidelines and Enforcement

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Points of view expressed in this document are those of the author and do not necessarily represent the official position of the Committee, State, or Court. The author is responsible for any errors and omissions.

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EXECUTIVE SUMMARY

Alabama's existing child support schedule is based on economic data available in 2007. There are several new studies of child-rearing expenditures available to update the schedule. The studies vary in their data years and methodologies used to separate the child's share of expenditures from total household expenditures. The one that makes the most sense to Alabama is the newest Betson-Rothbarth measurements (BR5). A concern with adopting an updated schedule based on BR5 is it will produce some changes of 10 percent or more. This includes decreases and increases. Most of the large decreases are at lower incomes and most of the large increases are at combined incomes of \$15,000 per month or more. The decreases result from proposed increases to the self-support reserve and a change in the method and underlying data used to adjust the BR5 measurements (which consider national data) for Alabama's lower incomes/prices. Technical improvements to the Consumer Expenditure Survey (CES), which is the underlying source of expenditures data, contribute to the decreases at low incomes and the increases at high incomes as well. For middle incomes, the proposed BR5 schedule produces changes less than 10 percent.

When compared to other studies of child-rearing expenditures and guidelines amounts of neighboring states, the existing Alabama amounts and proposed changes are within reason. Nonetheless, the proposed changes are favored due to more current and better economic data.

Besides the economic study underlying the schedule there are other data and assumptions considered in the updated schedule. They include the guidelines models; method to adjust for Alabama's lower income/cost of living; method to adjust for federal and state income taxes and FICA; the amount of ordinary, out-of-pocket medical expenses to include in the schedule; consideration of the expenditures to net income ratio; and the low-income adjustment, which includes the amount of the self-support reserve, the minimum order amount (which is now \$50 per month), and the adjustment method. There is no overwhelming reason to change any of these assumptions from that used to develop the BR5 schedule adjusted for Alabama's price parity except for the low-income adjustment.

RECOMMENDED NEXT STEPS

1. The committee review the economic studies and decide whether it is in the best interest of Alabama children and families to update the schedule.
2. The committee review the appropriateness of the other factors used in updating the schedule.
3. The committee should carefully consider the low-income adjustment (*i.e.*, the self-support reserve amount, the minimum order amount, exceptions to the minimum order amount, and the method for adjusting for low income).

Next Steps for CPR

Based on the direction of the committee/Court, CPR will finalize a proposed, updated schedule with a placeholder for possible changes to the low-income adjustment. CPR will develop side-by-side comparisons of this schedule to the existing schedule. In addition, CPR will complete its analysis of the ALECS case file data and provide other findings on the analysis of labor market data.

SECTION 1: PURPOSE AND BACKGROUND

The purpose of this document is to further explore an updated child support schedule based on new measurements of child-rearing expenditures. Federal regulation (require states to review their guidelines at least once every four years (C.F.R. 302.56 (a)); and, as part of that review consider economic data on the cost of raising children (C.F.R. 302.56 (h)(1)).

The focus is on measurements developed by Professor David Betson using the Rothbarth methodology because the existing Alabama schedule is based on an earlier Betson study using the Rothbarth methodology, the Rothbarth methodology is considered a valid and robust method, and most other states rely on Betson-Rothbarth (BR) measurements. An economic methodology is necessary to separate the child's share of expenditures from total household expenditures. There are several other studies of child-rearing expenditures that use different methodologies and older data. Many were discussed in the August 2020 presentation. They are also discussed in more detail later in this report. The most current study is the new BR study that is based on expenditures data collected in 2014-2019.¹

The existing Alabama child support schedule is based on a BR study released in 2006 using expenditures data collected in 1998-2004 that were updated to 2017 price levels and to consider 2007 federal and state income tax rates and FICA. Because most studies of child-rearing expenditures are based on national data (due to the prohibitive resources and time necessary to collect a significant and reliable sample of state information), the measurements were adjusted to consider that Alabama has lower income than the national average using 2005 U.S. Census data on Alabama and average U.S. income distributions.

Most states (27 states including Alabama) and the District of Columbia and Guam base their child support guidelines on a BR study. Betson first measured child-rearing expenditures using five different methodologies including the Rothbarth methodology in 1990 from expenditure data collected in 1980-86.² He recommended the Rothbarth methodology for state guidelines usage because of its statistical robust results. Since then he has updated his study four times: 1996,³ 2006,⁴ 2010,⁵ and 2020.

¹ Betson, David. (forthcoming) "Parental Expenditures on Children: Rothbarth Estimates," in *Arizona Child Support Guidelines Review: Updated Schedule and Analysis of Case File Data and Labor Market Data*. Center for Policy Research, Denver, CO.

² Betson, David M. (1990). *Alternative Estimates of the Cost of Children from the 1980-86 Consumer Expenditure Survey*. Report to U.S. Department of Health and Human Services, Office

³ Betson, David M. (2001). "Chapter 5: Parental Expenditures on Children." In Judicial Council of California, *Review of Statewide Uniform Child Support Guideline*. San Francisco, California.

⁴ Betson, David M. (2006). "Appendix I: New Estimates of Child-Rearing Costs." In State of Oregon Child Support Guidelines Review: Updated Obligation Scales and Other Considerations. Report to State of Oregon, Prepared by Policy Studies Inc., Denver Colorado.

⁵ Betson, David M. (2010). "Appendix A: Parental Expenditures on Children." In Judicial Council of California, *Review of Statewide Uniform Child Support Guideline*. San Francisco, California.

The next two frequently used studies (*i.e.*, the Espenshade study using the Engel methodology⁶ and the findings from the van der Gaag study⁷) were published in the 1980s. They are used by six and seven states, respectively. In other words, the next two most common studies are very old. The states using them have not updated the economic basis of their guidelines.

ORGANIZATION OF REPORT

Section 2 explores changes in the BR measurements over time.

Section 3 summarizes other current studies of child-rearing expenditures.

Section 4 reviews other factors considered in developing a child support schedule and alternatives for updating them.

Section 5 explores the impact of updating the schedule using case scenarios and information from the findings of the analysis of ALECS case file data.

Section 6 provides conclusions and next steps.

⁶ The Engel methodology was also used by Betson in a couple of his studies. Most states, however, use Engel estimates developed by Espenshade, Thomas J. (1984). *Investing in Children: New Estimates of Parental Expenditures*. Urban Institute Press: Washington, D.C.

⁷In 1981, University of Wisconsin conducted a literature review of economic measurements of child-rearing expenditures and developed a point estimate to inform the development of the Wisconsin child support guidelines, which is a percentage of obligor income guidelines. Several other states adapted Wisconsin's approach or used the literature review. The reference to the literature review is: van der Gaag, Jacques. (1981). "On Measuring the Cost of Children." *Discussion Paper* 663-81. University of Wisconsin Institute for Research on Poverty, Madison, Wisconsin.

SECTION 2: OVERVIEW OF BETSON-ROTHBARTH STUDIES OVER TIME

Named after the British WWII economist who derived it, the Rothbarth methodology is a marginal cost approach that compares expenditures of two sets of equally well-off households: one set consists of two-parent families with children, and the other consists of couples without children. The difference in their expenditures is presumed to be spent on child-rearing.⁸ The Rothbarth methodology relies on the percentage of total expenditures devoted to adult goods (*i.e.*, adult clothing in Betson's application) to determine equally well-off families. For theoretical reasons, economists believe that the Rothbarth methodology understates actual child-rearing expenditures because it overstates the substitution effect from expenditures for adults to expenditures for children (*e.g.*, parents may spend less on adult clothing once they have children). Nonetheless, as mentioned earlier, in Betson's original study of child-rearing expenditures that included the evaluation of five different methodologies, Betson concluded that the Rothbarth methodology was the most robust; hence, recommended states use Rothbarth measurements as the basis of their guidelines.⁹

As stated earlier, there are five Betson-Rothbarth (BR) studies over time. Each of the studies relies on expenditures data from different years of the Consumer Expenditure Survey (CES).¹⁰ Conducted by the U.S. Bureau of Labor Statistics (BLS), the CES is the data source of all studies measuring child-rearing expenditures. The CES is an on-going, comprehensive survey of household expenditures. Its primary purpose is to calibrate how the U.S. measures changes in price levels over time. The CES surveys about 6,000 households a year on hundreds of expenditures items. Households stay in the survey for four quarter; yet, households rotate in and out each quarter. Its sampling is not designed to produce state-specific items. Betson develops national measurements of child-rearing expenditures.

COMPARISONS OF BR PERCENTAGES OVER TIME

Exhibits 1 and 2, respectively, shows the approximate differences by approximate net income ranges for one and two children. The Betson measurements of child-rearing expenditures are not expressed in relationship to gross income, although the Alabama child support schedule relates to gross income. The conversion from net to gross income is discussed later.)

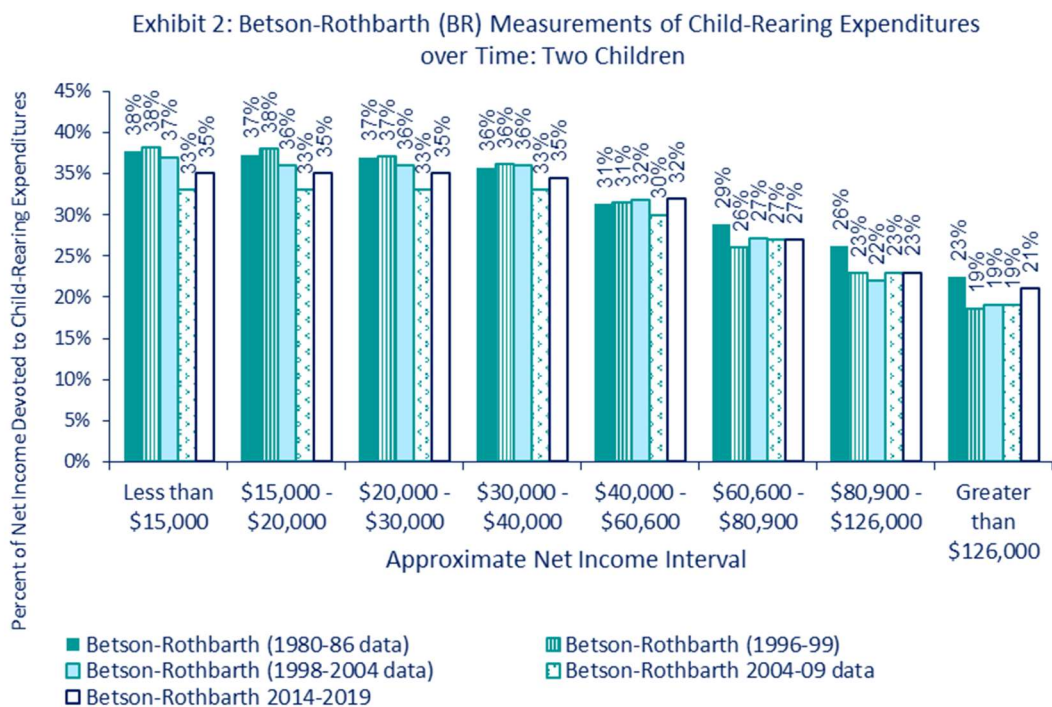
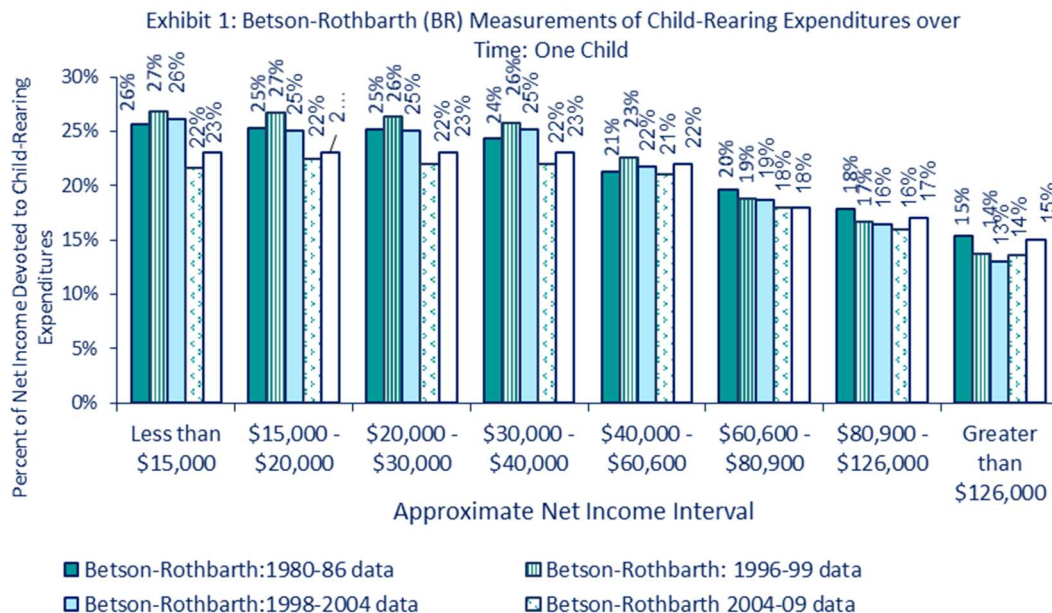
The BR3 (third BR study), BR4 (fourth BR study), and BR5 (fifth BR study) percentages relate to 2020 incomes and exclude the child's health insurance, child's extraordinary medical expenses, and childcare expenses. (Alabama and most states exclude these items from their schedules.) The price levels and

⁸ Another marginal cost approach is the "Engel" methodology that considers families to be equally well off if they spend the same proportion on food shares. Economists believe that the Engel methodology overstates actual child-rearing expenditures. Many states including Alabama based their original child support schedules on Engel measurements developed by Tomas Espenshade.

⁹ "Robust" in statistics means good performance in statistical tests, including results are generally unaffected by outliers or small changes in model assumptions. For more information, see Betson, David M. (1990). *Alternative Estimates of the Cost of Children from the 1980-86 Consumer Expenditure Survey*. Report to U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation. University of Wisconsin Institute for Research on Poverty, Madison, WI.

¹⁰ More information about the CES can be found at <https://www.bls.gov/cex/>.

whether these items are excluded from the BR1 (first BR study) and BR2 (second BR study) measurements is unclear.



There are several points about the measurements over time that can be made from Exhibits 1 and 2.

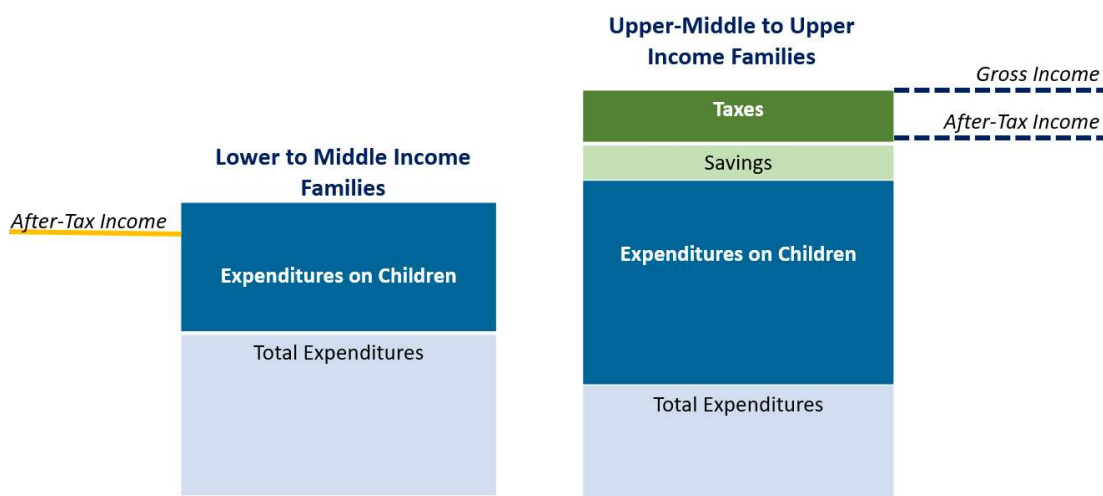
- In general, there are not significantly large changes in child-rearing expenditures over time.
- The notable changes consist of two changes:
 - A decrease at lower incomes (*e.g.*, see the first cluster for net incomes of \$15,000 per year or less); and
 - An increase at higher incomes (*e.g.*, see the last cluster for net incomes of \$126,000 per year or more).

Most of the observed changes can be explained by improvements to the CES or new data fields available to the CES.

To understand the changes, it is important to note that the BR measurements of child-rearing expenditures are measured as percentages of total expenditures. They are first converted from total expenditures to net income (also, called after-tax income), then finally converted to gross income using federal and state income tax and FICA formulas. (The second step of converting to gross income is discussed in more detail later.)

As shown in Exhibit 3, families may spend less, all, or more of their after-tax income. For the first step of translating the percentages of child-rearing expenditures to percentages of net income, CPR uses the average ratio of expenditures to income for each income range from the same families Betson uses to measure child-rearing expenditures. At low incomes, families spend more than their income on average. Since most states do not want to require parents to spend more of their income, CPR caps expenditures at income.

Exhibit 3: Relationship between Expenditures and Income



At upper-middle to upper incomes, families also incur taxes and savings. This reduces the after-tax income available for child-rearing expenditures.

Changes Beginning with the BR4 and Continued with the BR5

The BR4 and BR5 measurements contain two improvements.

- Noticing that lower income families spend more than their after-tax income on average, the BLS improved how it measured income. The improvements resulted in fewer households previously classified as being low income in the BR4 and BR5 studies. Indirectly, this produced decreases at low incomes from the BR3 study to the BR4 and BR5 measurements.
- The BR4 and BR5 studies use “outlays” instead of “expenditures” like the BR1, BR2, and BR3 studies did. Expenditures track closely with how gross domestic product (GDP) is measured. Namely, GDP considers houses to be investments (physical capital) so the BLS did not consider mortgage principal payments to be an expenditure. (It did include mortgage interest, any HOAs, rent, utilities, and other housing expenses.) Outlays consider all monthly expenses (*e.g.*, mortgage principal payments and interest, and payments on second mortgages and home equity loans.) Outlays also include installment payments (*e.g.*, major appliances and automobile). Expenditures included the total price of an item at the time of purchase (yet, Betson did an adjustment for automobile purchases in the BR1, BR2, and BR3 studies). The impact of the switch from expenditures to outlays is it increased expenditures at higher incomes from the BR3 measurement to the BR4 and BR5 measurements. This is likely because higher income families are more likely to purchase items via installments and have higher installment payments.

Changes Beginning with the BR5

The major change with the BR5 study was an improvement in how taxes were measured. In prior surveys, households would self report taxes. It was learned that families underestimated, particularly at high incomes, hence their after-tax income (spendable income) was smaller than measured. Beginning in 2014, the BLS began using their internal tax calculator (similar to TurboTax) to calculate each household’s taxes. This effectively reduced the after-tax income available for expenditures. Another indirect impact was to the ratio of expenditures to after-tax income, which is used in the conversion of the measurement of child-rearing expenditures to a child support schedule, increased. This produces increases from BR4 to BR5 for high-income families because they pay a larger amount of taxes. This means the denominator on the measure of expenditures to after-tax income increased.

In addition, a small improvement to the child’s share of healthcare expenses was made for BR5. It better reflects the child’s share of the family’s total out-of-pocket expenses. This results in nominal increases at very low incomes and nominal decreases at very high incomes.

SECTION 3: OTHER ECONOMIC STUDIES

In all, there are ten different measurements of child-rearing expenditures that form the basis of state guidelines.¹¹ The studies vary in data years and methodologies used to separate the child's share of expenditures from total household expenditures. Most of these studies are older. The most current of these ten studies is a study of child-rearing expenditures done by Rutgers University in 2013 using national data that were realigned for New Jersey's above-average income. Due to this, it is inappropriate for Alabama. The second most current of these ten studies is the fourth Betson-Rothbarth (BR4) study that was published in 2010, which was also mentioned earlier.

The BR5 study essentially updates the BR4 study. No state currently uses the BR5 study largely because it was just developed in 2020. Several states (*i.e.*, Arizona, Iowa, Missouri, and Pennsylvania), however, are currently reviewing their guidelines and seriously considering adopting the BR5 measurements.

OTHER RECENT STUDIES OF CHILD-REARING EXPENDITURES

The next three most current studies are:

- the Rodgers-Rothbarth measurements that measures child-rearing expenditures from expenditures data collected from families during 2000-2015,¹²
- the USDA measurements that measures child-rearing expenditures from expenditures data collected from families during 2011-2015,¹³ and
- the Comanor measurements that measures child-rearing expenditures from expenditures data collected from families during 2004-2009.¹⁴

These studies are explored further in this section. None are used by any state as the basis of their child support guidelines. Each uses a different methodology. There is no consensus among economists which methodology best measures actual child-rearing expenditures. However, there is general consensus

¹¹ In addition to the four earlier Betson-Rothbarth studies, the Espenshade study and van der Gaag study that were identified in Section 1, they include a Betson-Engel study in the BR2 study; an early U.S. Department of Agriculture study, a unique study for New Jersey and a unique study for Kansas. Neither of the economists of these two unique studies, however, relied on state-gathered data to develop their estimates. The references to these unique studies are New Jersey Child Support Institute (March 2013). *Quadrennial Review: Final Report*, Institute for Families, Rutgers, the State University of New Jersey, New Brunswick, NJ. Retrieved from http://www.judiciary.state.nj.us/reports2013/F0_NJ+QuadrennialReview-Final_3.22.13_complete.pdf; and, William T. Terrell and Jodi Messer Pelkowski. (2010). *XII. Determining the 2010 Child Support Schedules*. Retrieved from <http://www.kscourts.org/Rules-procedures-forms/Child-Support-Guidelines/PDF/Child%20Support%20Determination%20Economist%20FINAL%20REPORT.pdf>.

¹² Rodgers, William M. (2017). "Comparative Economic Analysis of Current Economic Research on Child-Rearing Expenditures." In Judicial Council of California, *Review of Statewide Uniform Child Support Guideline 2017*. San Francisco, CA. Retrieved from <http://www.courts.ca.gov/documents/lr-2018-JC-review-of-statewide-CS-guideline-2017-Fam-4054a.pdf>.

¹³ Lino, M. (2017). *Expenditures on Children by Families: 2015 Annual Report*. U.S. Department of Agriculture, Center for Nutrition and Policy Promotion. Miscellaneous Publication No. 1528-2015, Washington, D.C. Retrieved from <http://www.cnpp.usda.gov/publications/crc/crc2012.pdf>.

¹⁴ Comanor, W., Sarro, M., and Rogers, M. (2015). "The Monetary Cost of Raising Children." In (ed.) *Economic and Legal Issues in Competition, Intellectual Property, Bankruptcy, and the Cost of Raising Children* (Research in Law and Economics), Vol. 27). Emerald Group Publishing Limited, pp. 209–51. The Comanor study has been extensively reviewed by the Minnesota Child Support Task Force, which heard presentations from Comanor and critiques of Comanor by Dr. Jane Venohr. See Minnesota Department of Human Services, St. Paul, MN. For example, see https://mn.gov/dhs/assets/2017-03-31-Revised-Dr-Venohr-Report-to-MN-Child-Support-Task-Force_tcm1053-286690.pdf.

that guidelines amounts between the lowest and the highest of credible measurements are appropriate amounts.¹⁵

Like the BR studies, all of the studies rely on expenditures data from the Consumer Expenditure Survey (CES).¹⁶ The U.S. Bureau of Labor Statistics designed the CES to produce a nationally representative sample and samples representative of the four regions (Midwest, Northeast, South, and West). As discussed earlier, the sample sizes for each state, however, are not large enough to estimate child-rearing costs for families within a state. We know of no state that has seriously contemplated conducting a survey similar to the CES at a state level. The costs and time requirements would be prohibitive.

Rodgers-Rothbarth Measurements

In 2018, California published Rothbarth measurements prepared by Professor Mark Rodgers of Rutgers University, that essentially are based on U.S. average data. The findings from this study are compared later in this section to the most current BR measurements. For this study, Rodgers used expenditures data from families participating in the 2000–2015 CES. One reason he considered a larger time period was to average out the expenditures patterns since there were some anomalous patterns associated with the Great Recession of 2007–2009 and its aftermath. Rodgers concluded there were some actual dollar declines in outlays on children in recent years. In all, the Rodgers measurements differ significantly from the Betson measurements.

There are many nuanced differences between Betson’s approach and Rodgers’ approach that may explain the differences in their results. For example, Betson and Rodgers use different functional forms to specify their estimating equation (*e.g.*, Betson uses a quadratic equation and Rodgers does not). The functional form allows the percentage of expenditures to vary as the parents’ incomes increase. In addition, their sample selection criteria differ slightly (*e.g.*, Betson excludes families with a third adult, even though the third adult may be a child of the other two adults in the household while Rodgers does not).¹⁷ Still, there are other differences that are not clear. When Rodgers tried to replicate Betson’s measurements, his amounts were consistently two percentage points less.

USDA Measurements

Another study that is often considered in the review of guidelines but has not been used to develop a state’s guidelines since 2002¹⁸ is conducted by the United States Department of Agriculture (USDA). The USDA generally updates its measurements biannually. Its most recent study considers 2015 data and was published in 2017. The USDA first measures expenditures for seven different categories (*i.e.*, housing, food, transportation, clothing, health care, child care and education, and miscellaneous), then

¹⁵ For example, see Lewin/ICF. (1990). *Estimates of Expenditures on Children and Child Support Guidelines*. Report to U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation. Fairfax, Virginia.

¹⁶ More information about the Consumer Expenditure Survey can be found at <https://www.bls.gov/cex/>.

¹⁷ Betson did consider this as an alternative approach in his BR5 and concluded it did make a difference that states should adopt.

¹⁸ Minnesota is the only state to use the USDA measurements. However, since Minnesota has not updated its table in over a decade, it is based on old USDA measurements.

sums them to arrive at a total measurement of child-rearing expenditures. Some of the methodologies use a pro rata approach, which is believed to overstate child-rearing expenditures. The USDA provides measurements for the U.S. as a whole, and four regions: the South, Mid-West, Mid-Atlantic, and West.

Using expenditure data from 2011 through 2015, the USDA found that average child-rearing expenses were \$9,320 to \$23,090 per year for the youngest child in a two-child family in the South in 2015. The amount varies by age of the child and household income.

Comanor Study

Still another study, led by a University of California at Santa Barbara professor, William Comanor, has been extensively vetted by Minnesota. Arguably, the Comanor study measures the child's basic needs. It is arguable because the authors believe their methodology reflects child-rearing expenditures across all income ranges; however, it finds implausibly low amounts (*i.e.*, food costs below what the federal government measures as the minimum amount needed to sustain and uses as the basis for Supplemental Nutrition Assistance Program—SNAP, which was formerly known as “food stamps”).

In all, the amounts are near federal poverty levels. In 2018, Comanor reported that child-rearing costs of \$3,421 per year for one child and \$4,291 per year for two children in low-income households.¹⁹ The 2019 federal poverty guidelines set the poverty thresholds at \$12,490 per year for one person and \$4,420 per year for each additional person.²⁰ For middle incomes (*i.e.*, married couples with an average income of \$76,207 per year), Comanor reported child-rearing costs of \$4,749 per year for one child and \$6,633 per year for two children. These amounts are not that much more than the amounts for low incomes. Further, Comanor's one-child amount for middle incomes is almost equivalent to poverty (*i.e.*, \$4,749 per year is almost equivalent to \$4,420 per year), and Comanor's two-child amount for middle incomes is below poverty (*i.e.*, \$6,633 is less than \$8,840 per year²¹, which is twice the \$4,420 amount.)

Most states believe that the child support guidelines should provide for more than a basic needs amount if the obligated parent can afford a higher standard of living. In other words, if the obligated parent has sufficient income to enjoy a higher standard of living, the child should share in that higher standard of living. For these reasons, states often dismiss the Comanor study.

COMPARISONS

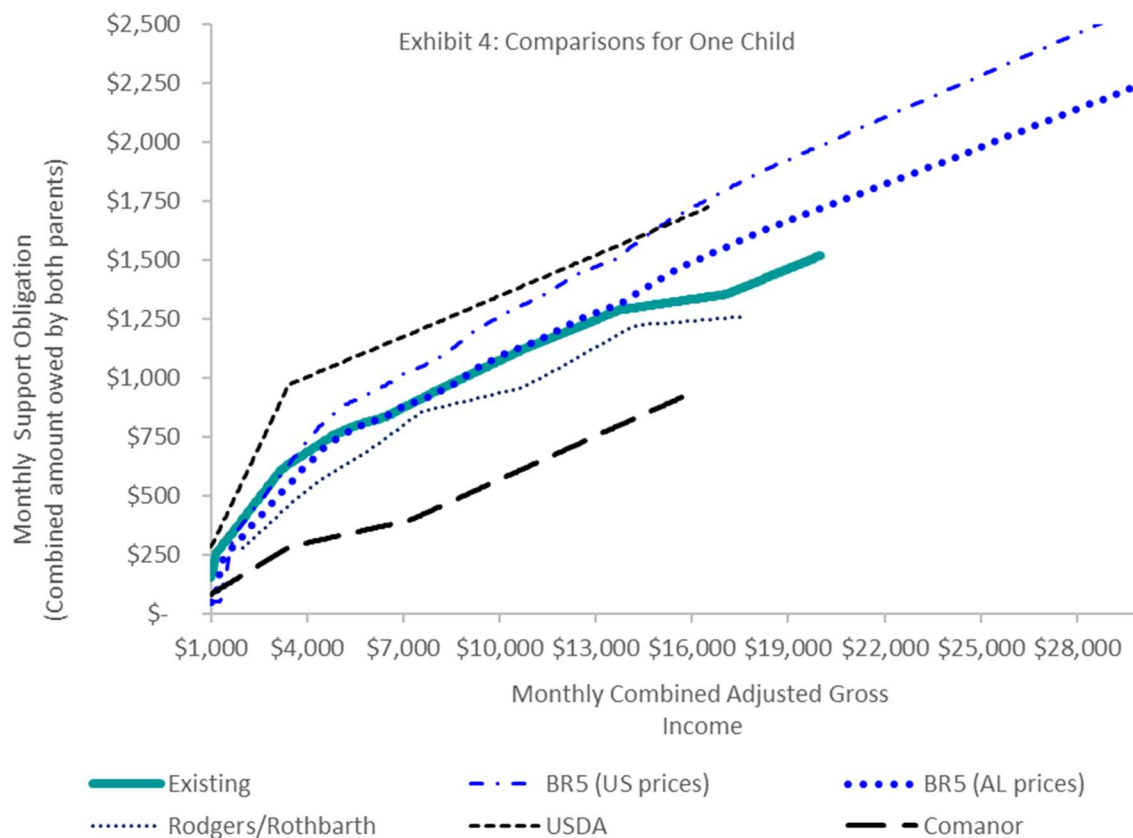
Exhibits 4,5, and 6 compare the measurements for one, two and three children, respectively. The USDA amounts are for the Southern region. The measurements are all converted to 2020 price levels. They show the schedule amounts for a range of combined gross incomes. This is the amount owed by both parents before the obligated parent's amount is prorated. The updated BR schedules include a self-support reserve.

¹⁹ Comanor, William. (November 8, 2018). *Presentation to Nebraska Child Support Advisory Commission*. Lincoln, Nebraska.

²⁰ U.S. Department of Health and Human Services. (2019). *2019 Poverty Guidelines for the 48 Contiguous States and the District of Columbia*. Retrieved from <https://aspe.hhs.gov/2019-poverty-guidelines>.

²¹ The federal poverty guidelines are not adjusted for economies of scale: that is, the cost of two children is not necessarily double the cost of one child.

The BR5 amounts are shown two ways: schedule amounts for the U.S. average; and adjusted for Alabama price levels using the most currently published price parity for Alabama.²² Recall, that the BR measurements reflect U.S. averages and the existing schedule was re-aligned to consider differences in U.S. and Alabama incomes using U.S. Census data over a decade old. Since then, the U.S. Bureau of Economic Analysis (BEA) has developed an index that captures price differences across states called the price parity. The most recent price parity data is from 2018. The BEA finds that for every \$1.00 spent on the U.S. on average, \$0.864 is needed for the same level of expenditures in Alabama. Use of the Alabama's price parity yields a general reduction of about 14 percent. Both of the BR5 schedules are also updated for changes in the federal poverty guidelines for one person, which is the basis of the self-support reserve that is incorporated into the schedule.

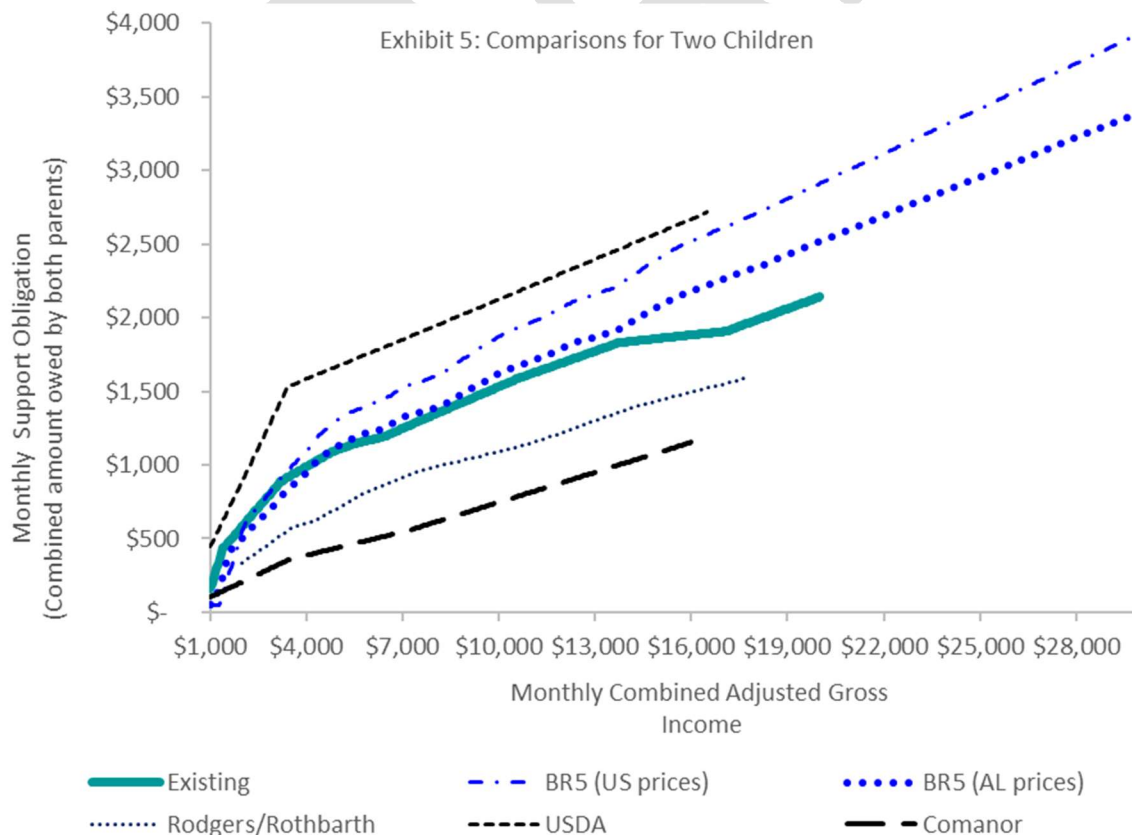


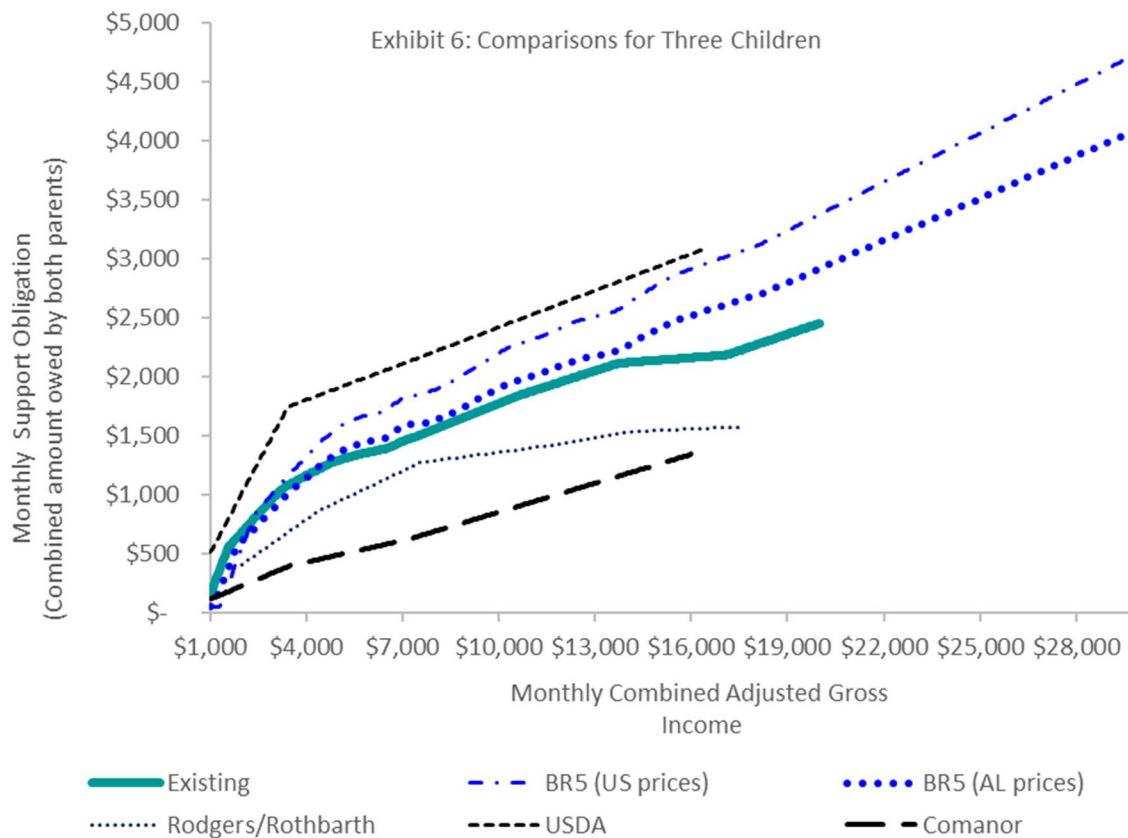
There are several observations that can be made from Exhibit 4.

- The studies differ in the maximum monthly combined adjusted gross income that can be considered.
 - The current existing Alabama schedule considers combined incomes up to \$20,000 per month.

²² U.S. Bureau of Economic Analysis. (2020). *2018 Regional Price Parities by State (US = 100)*. Retrieved from <https://www.bea.gov/news/2020/real-personal-income-states-and-metropolitan-areas-2018>.

- The BR5 schedules can consider combined incomes over \$30,000 per month.
- The USDA, Rodgers/Rothbarth, and Comanor can consider combined incomes up to about \$17,000 per month. Above this income, there is insufficient data to know the rate of increase in child support expenditures as income increases; that is, the data are insufficient to know if the curve flattens at very high incomes.
- The Comanor study produces the lowest amounts. As discussed earlier, the Comanor study produces near poverty amounts.
- The USDA generally produces the highest amounts, but the BR5 (US prices) begins to exceed the USDA amounts at combined incomes of about \$15,000 per month.
- The existing Alabama amounts are generally between in between the lowest and the highest of the measurements. As mentioned earlier, several economists and policymakers believe that any amount between the lowest and the highest of the credible measurements is appropriate for a state's guidelines. This provides some justification to making no changes to the schedule.
- The BR5 (US prices) is higher than the BR5 (AL prices) and generally parallel to the line depicting BR5 (AL prices).
- BR5 (AL prices) would produce some increases and decreases to schedule amounts that are summarized later.





The summary observations for two and three children are similar to those for one child except there are fewer decreases for two and three children. The patterns for four and more children would be similar to those for three children.

Summary of Proposed Increases and Decreases under BR5 (AL prices)

Reasons for Increases

If the schedule was changed due to increases in price levels alone, there would be increases over time. Changes in expenditures patterns and changes in income tax rates, particularly federal tax rates changes (which increase the after-tax income available for expenditures), are considered. This exacerbates the increases at high income because they are the most likely to be affected by these changes. The increases are also exacerbated by two technical changes that also affect higher incomes greater. The change to “outlays” from “expenditures” affects higher incomes more because they are more likely to have mortgages, bigger mortgages, and other installment payments that were not captured in expenditures. The improvement in the tax measures reduces after-tax income; and, in turn, increases the percentage of after-tax income devoted to child-rearing expenditures.

Reasons for Decreases

The comparisons also suggest some decreases under BR5 (AL prices). Most of the underlying reasons are technical.

- At very low incomes, an increase in the self-support reserve (SSR) for changes in the federal poverty guidelines for one person would decrease the schedule amounts. The area adjusted for the SSR under the existing schedule is noted by blue shading. Increasing the SSR would expand the shaded area for:
 - One child: from an income of \$1,100 to \$1,350 per month;
 - Two children: from an income of \$1,350 to \$1,600 per month;
 - Three children: from an income of \$1,550 to \$1,800 per month;
 - Four children: from an income of \$1,700 to \$1,950 per month;
 - Five children: from an income of \$1,900 to \$2,100 per month; and
 - Six children: from an income of \$2,100 to \$2,250 per month.
- As shown in Exhibits 1 and 2 and discussed earlier there are some decreases at very low incomes due to the improved definition of income used in the Consumer Expenditure Survey (CES). Essentially, the definition moved some households that income was not reported or were thought to be low income out of that category and into a higher income category.
- At very low incomes, as shown in Exhibit 3 and explained in the narrative, the actual amount expended is more but capped such that a household's total expenditures do not exceed their after-tax income. This artificially lowers the amounts at low incomes.
- The gap between Alabama and U.S. prices/incomes may have grown. In addition, the switch from adjusting for differences in incomes to price parity causes a larger adjustment. The former adjustment is taken off of income, while the latter adjustment is taken from the schedule amount. The price parity, which was not measured when the existing schedule was developed, is a better index of U.S. and Alabama differences. Further, the adjustment based on income is not consistently made across all income levels; rather, the adjustment is largest at middle incomes.
 - If Alabama were not to adjust for Alabama's price parity, those decreases above the self-support reserve (SSR) would be significantly less.
 - For one child, the decreases would never be more than \$20 (7%) and the decreases would only occur for combined incomes of \$3,400 per month or less.
 - For two children, there would be no decreases above the SSR.

Summary of Increases and Decreases

Exhibit 7 summarizes the decreases and increases. The decreases for two or more children would affect lower incomes. For example, in circumstances where the mother and father have equal earnings and work full-time, it would affect those when both parents earn less than about \$13 per hour. However, adjustments for work-related childcare expenses or health insurance may offset some of the decreases.

The Alabama child support guidelines provides that periodic changes to the guidelines are not a change in circumstances. It also provides for when there is a change in circumstance there must be at least a 10 percent change. There are decreases of at least 10 percent proposed under BR5 (AI prices) for combined incomes below:

- \$3,800 per month for one child;
- \$3,550 per month for two children; and
- \$2,400 per month for three or more children.

There are increases of at least 10 percent proposed under BR5 (AI prices) for combined incomes above:

- \$15,350 per month for one child;
- \$14,550 per month for two children; and
- \$14,450 per month for three or more children.

Exhibit 7: Summary of Increases and Decreases to Schedule Amounts under B5 (AI prices)

	Increases	Decreases Besides Those Due to Updating the Self-Support Reserve
One Child	<ul style="list-style-type: none"> • Combined Incomes of \$8,700–\$15,000/month: <ul style="list-style-type: none"> ○ Increases of \$1–\$106/month ○ Percentage increase is 1–8% • Combined incomes of \$15,000 - \$20,000/month: <ul style="list-style-type: none"> ○ Increases of \$106–\$207/month ○ Percentage increase is 8–15% 	<ul style="list-style-type: none"> • Combined incomes of \$1,450–\$4,000 <ul style="list-style-type: none"> ○ Decrease up to \$1–\$99/month ○ Percentage decrease is 1–19% • Combined incomes of \$4,000–\$6,150 <ul style="list-style-type: none"> ○ Decrease up to 1–\$48/month ○ Percentage decrease is 1–7% • Combined incomes of \$7,400–\$8,700 <ul style="list-style-type: none"> ○ Decrease up to 1–\$11/month ○ Percentage decrease is 1%
Two Children	<ul style="list-style-type: none"> • Combined incomes of \$4,400–\$15,000/month: <ul style="list-style-type: none"> ○ Increases of \$2–\$219/month ○ Percentage increase is 1–12% • Combined incomes of \$15,000 - \$20,000/month: <ul style="list-style-type: none"> ○ Increases of \$223–\$377/month ○ Percentage increase is 12–18% 	<ul style="list-style-type: none"> • Combined incomes of \$1,600–\$4,400/month <ul style="list-style-type: none"> ○ Decrease of \$1–\$104/month ○ Percentage decrease is 1–14%
Three Children	<ul style="list-style-type: none"> • Combined incomes of \$4,400–\$15,000/month: <ul style="list-style-type: none"> ○ Increases of \$1–\$269/month ○ Percentage increase is 1–13% • Combined incomes of \$15,000 - \$20,000/month: <ul style="list-style-type: none"> ○ Increases of \$275–\$466/month ○ Percentage increase is 13–19% 	<ul style="list-style-type: none"> • Combined incomes of \$1,800–\$4,400/month <ul style="list-style-type: none"> ○ Decrease of \$1–\$97/month ○ Percentage decrease is 1–11%
Four and More Children	<ul style="list-style-type: none"> • Changes will be similar to those of three children 	

OTHER CONSIDERATIONS

All of the ten studies underlying state child support guidelines consider child-rearing expenditures in two-parent families. The reason is that most states premise their guidelines on the principle that the child shall be held harmless by the parent's decision to separate, divorce, or never marry and live together; and, the child should receive the same amount of expenditures the child would have received

had the parents lived together and shared financial resources. This principle is most obvious in the income shares model, which is the basis of the Alabama child support guidelines as well as 40 other states.²³ Although less obvious in percentage-of-obligor income guidelines, most also base their guidelines amounts on studies of child-rearing expenditures in two-parent families.²⁴ They just assume that the receiving parent spends the same amount or percentage of income on the child as the parent owing support.

The alternative to studies on child-rearing expenditures in two-parent families would be minimum needs studies or studies examining child-rearing expenditures in single-parent families. Both of these types of studies are rejected as the basis of state guidelines because most states explicitly or implicitly take the position that if the obligated parent's income affords the obligated parent a higher standard of living that higher standard of living should be shared with the child. An economic study on the minimum needs of a child does not achieve that, nor does an economic study of child-rearing expenditures in single-parent families because a large share of single-parent families live in poverty. In 2018, the poverty rate among U.S. households with children was 8.4% among married couples, 42.0% among families with female householders, and 20.6% among those with male householders.²⁵

²³More information about guidelines models and the underlying economic studies can be found in Jane C. Venohr (Apr. 2017). "Differences in State Child Support Guidelines Amounts: Guidelines Models, Economic Basis, and Other Issues. *Journal of the American Academy of Matrimonial Lawyers*.

²⁴For more detail, see Ingrid Rothe and Lawrence Berger. (Apr. 2007). "Estimating the Costs of Children: Theoretical Considerations Related to Transitions to Adulthood and the Valuation of Parental Time for Developing Child Support Guidelines." *IRP Working Paper*, University of Wisconsin: Institute for Research on Poverty, Madison, Wisconsin. Retrieved from http://www.irp.wisc.edu/research/childsup/cspolicy/pdfs/Rothe_Berger_Task6.pdf; and Venohr, Jane. (2016). *Review of the Nevada Child Support Guidelines*, Report to the State of Nevada Division of Welfare and Support Services, Child Support Enforcement Program, Carson City, NV. Retrieved from https://dwss.nv.gov/uploadedFiles/dwssnv.gov/content/Home/Features/Child_supp_guidelines_review_102816.pdf.

²⁵U.S. Census Bureau, 2018 American Community Survey, *Children Characteristics, Table ID S0901*. <https://data.census.gov/cedsci/table?q=Families%20and%20Living%20Arrangements&tid=ACST1Y2018.S0901&hidePreview=false>.

SECTION 3: OTHER CONSIDERATIONS IN UPDATING/DEVELOPING A SCHEDULE

Besides the economic study, there are several other considerations in developing and updating a child support schedule. Exhibit 8 shows the major ones. They were also discussed at the August meeting.

Exhibit 8: Summary of Other Considerations

Factor	Basis of Existing	Proposed and Alternatives
1. Guidelines Model	Income shares	<ul style="list-style-type: none"> 41 states use income shares 8 states use % of income 3 states use Melson Other guidelines model
2. Adjust to current price levels	March 2007 price levels	<ul style="list-style-type: none"> August 2020 price levels
3. Adjust for Alabama's lower income/cost of living	Census data comparing U.S. and Alabama income distributions	<ul style="list-style-type: none"> No adjustment Price parity (AL: 86.4%) Income realignment
4. Consider federal and state income taxes and FICA	2007 federal and state income tax withholding formulas for a single taxpayer	<ul style="list-style-type: none"> 2020 federal tax reform Assumptions other than single taxpayer
5. Exclude childcare, child's health insurance premium & extraordinary medical expenses	Excludes all but the first \$250 per child per year in ordinary, out-of-pocket medical expenses	<ul style="list-style-type: none"> Retain assumption Exclude all Ohio approach
6. Consider expenditures to net income ratio	Converts expenditures to net income using ratios from same families in CES Caps expenditures at 100%	<ul style="list-style-type: none"> Assume all after-tax income is present
7. Adjust for self-support reserve	Self-support reserve relating to 2007 fed poverty level incorporated into schedule and \$50 minimum order	Adjustment is layered on top of schedule, options to be addressed later

Row 1: Guidelines Models

As mentioned earlier, Alabama is one of 41 states to use the income shares model. The two other guidelines models in use by states are: eight states rely on a percentage-of-obligor income guidelines model; and three states rely on the Melson formula. The income shares model presumes that each parent is responsible for his or her prorated share of income. Most percentage-of-obligor income

guidelines models presume that the custodial parent devotes the same percentage or dollar amount to the child-rearing expenditures as the child support order. Mechanically, the Melson formula shares elements of both the income shares model and the percentage-of-obligor income model. It first prorates a basic needs level for the child between the parents; then, if the obligated parent has any income remaining after meeting his or her own basic needs as well as his or her prorated share of the basic needs of the child(ren), an additional percentage of the remaining income is assigned to child support.

Switching guidelines models typically takes several years. For example, Illinois took seven years to switch its guidelines model from a percentage-of-obligor income guidelines model to an income shares guidelines model. Arkansas just switched to income shares this year from a percentage-of-obligor income guidelines model and took less time than Illinois.

All states that have switched guidelines models in the past three decades have switched to the income shares model. Further, research finds that other factors (*e.g.*, the economic basis, whether the schedule has been updated for changes in price levels, and adjustments for low-income parents) affect state differences in guidelines more than the guidelines model.²⁶

Row 2: Price Levels

Row 2 notes the year of the price level used to develop or update the schedule. All of the economists used the Consumer Price Index, which is the major price index used across the nation. The existing schedule considers 2007 price levels, which is a 26.6 percent increase to August 2020, the month for which price levels are published. This does not mean a 26.6 percent increase to the schedule amounts is appropriate. Much of the price increase has been offset by increases to income. However, it is not a wash. There have too many nuanced changes to spending patterns (*e.g.*, more cell phone use and the cost of clothing was stabilized for several years due to knock-offs and imports) and variation between income ranges in expenditure changes. Updating the schedule for more recent data is the best way to recalibrate the schedule for these changes.

Row 3: Adjustments for Alabama's Lower Income/Price Levels

All of the BR measurements consider U.S. averages. To adjust the updated schedule for Alabama prices for this review, a U.S. average schedule is first developed. In turn, it is multiplied by Alabama's price parity measure that is published and developed by the U.S. Bureau of Economic Analysis (BEA).²⁷ As mentioned earlier, the most recent price parity measure is from 2018. The BEA finds that for every \$1.00 spent on the U.S. on average, \$0.864 is needed for the same level of expenditures in Alabama. Use of the Alabama's price parity yields a general reduction of about 14 percent.

²⁶ Venohr, J. (April 2017). Differences in State Child Support Guidelines Amounts: Guidelines Models, Economic Basis, and Other Issues. *Journal of the American Academy of Matrimonial Lawyers*.

²⁷ U.S. Bureau of Economic Analysis. (2020). *2018 Regional Price Parities by State (US = 100)*. Retrieved from <https://www.bea.gov/news/2019/real-personal-income-states-and-metropolitan-areas-2018>.

As stated earlier, there is a switch from adjusting for Alabama's lower income/price levels due to differences in incomes to price parity. The former adjustment is taken off of income, while the latter adjustment is taken from the schedule amount, which causes a larger decrease. The price parity, which is a measurement that the BEA just began reporting a few years ago, was not available when existing schedule was developed, is a better index of U.S. and Alabama differences. Further, the adjustment based on income is not consistently made across all income levels; rather, the adjustment is largest at middle incomes.

Alabama could consider using the income differences to make the realignment. Based on previous realignments, this could cut the price-parity reduction of 14 percent by half and more at higher incomes. It would require subcontracting with Professor David Betson, which would require a contract modification to include him as a subcontractor and could take several months.

Row 4: Conversion to Gross Income

As mentioned earlier, the BR measurements relate to expenditures rather than net income or gross income. (This is also shown in Exhibit 3.) They are first converted to net income, then converted to gross income. The conversion to gross income relies on federal and state income tax withholding formulas are used including FICA. It is assumed that all income is taxed at the rate of a single individual, using the federal and state income withholding formulas in the prevailing year. This is the assumption used by most states. Most alternative tax assumptions would result in more after-tax income, hence higher schedule amounts. For example, the District of Columbia assumes the tax-filing status is for a married couple claiming the number of children for whom support is being determined. The District used this assumption prior to 2018 tax reform that eliminated the federal tax allowance for children. Due to the elimination of the federal tax allowance the increase from an alternative assumption will not be as large as it would be pre-2018 tax reform.

In 2020, the Internal Revenue Service (IRS) published several different income withholding methods depending on whether the tax filer uses a current or older W-4 allowances. This was shown in the August briefing materials. However, based on further analysis, the different among the formulas are so small using one method over another will not matter. The conversion uses method 4, which complements the 2020 W-4 form.

Row 5: Exclude Child Care Expenses and Out-of-Pocket Health Care Costs

The measurements of child-rearing expenditures cover *all* child-rearing expenditures including child care expenses and the out-of-pocket health care expenses for the child. This includes out-of-pocket insurance premium on behalf of the child and out-of-pocket extraordinary medical expenses such as deductibles. These expenses are widely variable among cases (*e.g.*, child care costs for an infant are high and there is no need for child care for a teenager). Instead of putting them in the schedule, the actual amount of the expense is addressed on a case-by-case basis in the worksheet. To avoid double-accounting in the updated schedule, these expenses are subtracted from the measurements when developing the updated schedule.

However, there is an exception to this. An amount to cover ordinary out-of-pocket health care expenses (e.g., aspirin and copay for well visit) was retained in all of the schedules. The current schedules assumes up to \$250 per child per year for ordinary data based on data.²⁸ That assumption is retained based on current data. The concern, however, is the amount varies significantly among those with Medicaid and private insurance, particularly with high deductibles. The 2015 Medical Expenditure Panel Survey (MEPS) finds that the average out-of-pocket medical expense per child was \$248 per year but varied depending on whether the child was enrolled in public insurance such as Medicaid or had private insurance. Based on MEPS data, out-of-pocket medical expenses averaged \$63 per child per year for children who had public insurance and \$388 per child per year for those with private insurance. The 2017 MEPS data has not drilled down to the public insurance and private insurance level, but they do report an average for all children, \$271 per child, so still close to the \$250 level.

Some states are responding to the disparity in out-of-pocket expenses between those with public insurance and private insurance two ways. One way is to include *no* ordinary out-of-pocket medical expenses (e.g., Connecticut and Virginia) in the schedule. This means parents must share receipts for *all* out-of-pocket medical expenses, not just those exceeding \$250 per child per year. In addition to including no ordinary out-of-pocket medical expenses in the schedule, the second method provides for a standardized amount of out-of-pocket medical expenses that could differ depending on whether the child is enrolled in Medicaid that is added on a line in the worksheet similar to the add-on for childcare except it is a standardized amount rather than an actual amount. Michigan and Ohio use this approach. The weaknesses are that it makes the calculation more cumbersome, and requires knowledge of whether the children are enrolled in Medicaid (which may change frequently). It would reduce the schedule amounts. The strength is it better addressed the disparities in out-of-pocket medical expenses between children enrolled in Medicaid (which essentially has no copays or deductibles) and children with private insurance with high deductibles and copays.

Row 6: Conversion of Expenditures to Net Income

The need for this conversion is illustrated in Exhibit 3. The conversion to net income for the BR measurements is done by taking the expenditures to income ratio for the same subset of CES families used to develop the measurements. This is weighted by measurement of child-rearing expenditures. For example, if a family devotes 20 percent of its expenditures to one child on average for a particular income at that family income, the families on average spend 80 percent of their income, then a net-income based schedule assumes 16 percent of net income (20 multiplied by 80) is spent on child-rearing expenditures. If the ratio is greater than one, which means the family spends more than their income, it is capped at one. This implies that families cannot spend more than their income.

There at least two alternatives. One would be to eliminate the cap, which would increase the schedule amounts at very low incomes; specifically, it would increase the schedule amounts for incomes below \$4,300 per month. The counter-argument is that it would require these families to spend more than their after-tax income.

²⁸ The existing guidelines state \$200 per family per year. That is a very old assumption that appears not to have been updated.

Another alternative assumption that could be used is that families spend all of their after-tax income. Under this assumption, family expenditures and after-tax income are equal, so no additional adjustment is necessary. The District of Columbia is the only state to make this assumption. This would increase the schedule amounts.

Row 7: Low-Income Adjustment: Self-Support Reserve and Minimum Order

The combination of the self-support reserve (SSR) and the minimum order is often referred to as the “low-income adjustment.” Both components are policy decisions. In addition, where to apply the SSR is a policy decision. It can be incorporated into the table or provided in the worksheet. With that said, there is some economic and mathematical basis such that the amounts are reasonable and do not produce significant increases or decreases as a parent’s income gradually changes.

Federal regulation (45 C.F.R 302.56(c)(1)(ii)) requires a state’s guidelines to take into consideration the basic subsistence needs of the noncustodial parent who has limited ability to pay. The existing Alabama guidelines like most state guidelines consider the basic subsistence needs of a parent through a SSR that is incorporated into the schedule. The current Alabama SSR relates to the 2007 federal poverty guidelines (FPG) for one person (\$851 per month). The 2020 FPG is \$1,063 per month. Most states base it on the federal poverty guidelines (FPG) for one person but may be use more or less than the FPG. The highest is New York, which uses 135 percent of the FPG. In contrast, Illinois uses 75 percent of the FPG. The proposed BR5 schedule includes a SSR equivalent to \$1,063 per month multiplied by Alabama’s price parity (86.4%) to adjust for Alabama’s prices. The reduction is consistent with price parity applied to all areas of the schedule.

For incomes below the SSR, a minimum order or zero order is applied. Alabama’s current minimum order is \$50 per month, which is common among states. Some states are moving to zero amounts for incomes below the SSR (*e.g.*, North Dakota) or provide for court discretion (*e.g.*, Arizona). In addition, some states provide when a zero or non-financial order may be appropriate: in equal custody and equal income circumstances, when the parent is incarcerated, when the parent has a mental or physical disability that limit his or her ability to work, and when the parent is the primary caretaker for a disabled child or adult. Another reason is when the child has been removed from the home of the primary custodial parent and the permanency plan is reunification of the child with the primary custodial parent. Examples of these are illustrated by state guidelines provisions in Illinois, Louisiana, and Tennessee (See Exhibit 9.)

The specifics of the low-income adjustment are typically developed after the economic basis of the schedule is determined. This allows for the gradual phase-out of the low-income adjustment to the schedule amounts based on economic data on the cost of raising children, and avoids cliff effects (abrupt increases) with small changes in income.

Exhibit 9 also illustrate how the shaded area is used

to protect the SSR when the custodial parent has income in Missouri and North Carolina. Alabama could

Combined Adjusted Gross Income	One Child	Two Children	Three Children	Four Children	Five Children	Six Children
0-800.00	50	50	50	50	50	50
850.00	60	61	61	62	63	63
900.00	91	93	94	95	96	97
950.00	123	124	126	127	129	130
1000.00	155	156	158	160	162	163
1050.00	189	191	193	195	198	200
1100.00	224	227	229	232	234	237
1150.00	253	262	265	268	271	274
1200.00	262	298	301	304	307	311
1250.00	272	333	337	340	344	348
1300.00	281	368	372	376	381	385
1350.00	290	404	408	413	417	422
1400.00	299	435	444	449	454	459

adopt a similar approach. Consider a situation in which each parent's income is \$700 per month and there is one child. The basic obligation in this scenario would be \$299 and the obligated parent's income would be half of that: \$150 per month. If the obligor's income falls into the shaded area in Missouri and North Carolina, only the obligor's income is considered. If Alabama were to use the Missouri or North Carolina approach, the order would be \$50 per month instead.

EXHIBIT 9: LOW-INCOME PROVISIONS FROM SELECTED STATES																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
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IL (exceptions to the minimum order)	<p>Zero dollar child support order.</p> <p>For parents with no gross income, who receive only means-tested assistance, or who cannot work due to a medically proven disability, incarceration, or institutionalization, there is a rebuttable presumption that the \$40 per month minimum support order is inapplicable and a zero dollar order shall be entered.</p>																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																
LA (exceptions to the minimum order)	<p>Mandatory minimum child support award</p> <p>In no event shall the court set an award of child support less than one hundred dollars, except in cases involving shared or split custody as provided in R.S. 9:315.9 and 315.10. In cases when the obligor has a medically documented disability that limits his ability to meet the mandatory minimum, the court may set an award of less than one hundred dollars.</p>																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																
MO (uses the shaded area to protect the SSR when the receiving parent has income)	<table border="1"> <thead> <tr> <th>Combined Adjusted Gross Income</th><th>One Child</th><th>Two Children</th><th>Three Children</th><th>Four Children</th><th>Five Children</th><th>Six Children</th></tr> </thead> <tbody> <tr><td>0 - 1000</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td></tr> <tr><td>1000</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td></tr> <tr><td>1100</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td></tr> <tr><td>1200</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td></tr> <tr><td>1300</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td></tr> <tr><td>1400</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td></tr> <tr><td>1500</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td><td>80</td></tr> 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amount on the schedule of basic child support obligations (\$25.00 and \$75.00 shall be rounded upward) prior to determining the amount to be entered on line 5. For low income cases, when the parent paying support's monthly income from line 3 and corresponding number of children fall into the shaded area of the schedule, two calculations should be completed for lines 8 through 12. First, complete the calculation as normal, using the basic child support amount for the combined adjusted gross incomes from line 3. Next, complete the calculation using only the basic child support amount for the obligor's gross monthly income from line 3, with line 9 consisting of obligor paying 100% of this amount plus the obligor's percentage from line 4 of the line 7 additional child-rearing costs. Line 4 and line 11 shall remain the same as the original calculation. The line 11 overnight percentage credit shall remain the same in both calculations. The lower of the two calculations shall be the parent paying support's basic child support obligation</p>						Combined Adjusted Gross Income	One Child	Two Children	Three Children	Four Children	Five Children	Six Children	0 - 1000	80	80	80	80	80	80	1000	80	80	80	80	80	80	1100	80	80	80	80	80	80	1200	80	80	80	80	80	80	1300	80	80	80	80	80	80	1400	80	80	80	80	80	80	1500	80	80	80	80	80	80	1600	80	80	80	80	80	80	1700	80	80	80	80	80	80	1800	80	80	80	80	80	80	1900	80	80	80	80	80	80	2000	80	80	80	80	80	80	2100	80	80	80	80	80	80	2200	80	80	80	80	80	80	2300	80	80	80	80	80	80	2400	80	80	80	80	80	80	2500	80	80	80	80	80	80	2600	80	80	80	80	80	80	2700	80	80	80	80	80	80	2800	80	80	80	80	80	80	2900	80	80	80	80	80	80	3000	80	80	80	80	80	80	3100	80	80	80	80	80	80	3200	80	80	80	80	80	80	3300	80	80	80	80	80	80	3400	80	80	80	80	80	80	3500	80	80	80	80	80	80	3600	80	80	80	80	80	80	3700	80	80	80	80	80	80	3800	80	80	80	80	80	80	3900	80	80	80	80	80	80	4000	80	80	80	80	80	80	4100	80	80	80	80	80	80	4200	80	80	80	80	80	80	4300	80	80	80	80	80	80	4400	80	80	80	80	80	80	4500	80	80	80	80	80	80	4600	80	80	80	80	80	80	4700	80	80	80	80	80	80	4800	80	80	80	80	80	80	4900	80	80	80	80	80	80	5000	80	80	80	80	80	80	5100	80	80	80	80	80	80	5200	80	80	80	80	80	80	5300	80	80	80	80	80	80	5400	80	80	80	80	80	80	5500	80	80	80	80	80	80	5600	80	80	80	80	80	80	5700	80	80	80	80	80	80	5800	80	80	80	80	80	80	5900	80	80	80	80	80	80	6000	80	80	80	80	80	80	6100	80	80	80	80	80	80	6200	80	80	80	80	80	80	6300	80	80	80	80	80	80	6400	80	80	80	80	80	80	6500	80	80	80	80	80	80	6600	80	80	80	80	80	80	6700	80	80	80	80	80	80	6800	80	80	80	80	80	80	6900	80	80	80	80	80	80	7000	80	80	80	80	80	80	7100	80	80	80	80	80	80	7200	80	80	80	80	80	80	7300	80	80	80	80	80	80	7400	80	80	80	80	80	80	7500	80	80	80	80	80	80	7600	80	80	80	80	80	80	7700	80	80	80	80	80	80	7800	80	80	80	80	80	80	7900	80	80	80	80	80	80	8000	80	80	80	80	80	80	8100	80	80	80	80	80	80	8200	80	80	80	80	80	80	8300	80	80	80	80	80	80	8400	80	80	80	80	80	80	8500	80	80	80	80	80	80	8600	80	80	80	80	80	80	8700	80	80	80	80	80	80	8800	80	80	80	80	80	80	8900	80	80	80	80	80	80	9000	80	80	80	80	80	80	9100	80	80	80	80	80	80	9200	80	80	80	80	80	80	9300	80	80	80	80	80	80	9400	80	80	80	80	80	80	9500	80	80	80	80	80	80	9600	80	80	80	80	80	80	9700	80	80	80	80	80	80	9800	80	80	80	80	80	80	9900	80	80	80	80	80	80	10000	80	80	80	80	80	80
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Combined Adjusted Gross Income	One Child	Two Children	Three Children	Four Children	Five Children	Six Children
0-1150	50	50	50	50	50	50
1200	71	72	73	74	74	75
1250	92	93	94	95	95	96
1300	113	114	115	116	116	117
1350	134	135	136	137	137	138
1400	155	156	157	158	158	159
1450	176	177	178	179	179	180
1500	197	198	199	200	200	201
1550	218	219	220	221	221	222
1600	239	240	241	242	242	243
1650	260	261	262	263	263	264
1700	281	282	283	284	284	285
1750	302	303	304	305	305	306
1800	323	324	325	326	326	327
1850	344	345	346	347	347	348
1900	365	366	367	368	368	369
1950	386	387	388	389	389	390
2000	407	408	409	410	410	411
2050	428	429	430	431	431	432
2100	449	450	451	452	452	453
2150	470	471	472	473	473	474
2200	491	492	493	494	494	495
2250	512	513	514	515	515	516
2300	533	534	535	536	536	537
2350	554	555	556	557	557	558
2400	575	576	577	578	578	579
2450	596	597	598	599	599	600
2500	617	618	619	620	620	621
2550	638	639	640	641	641	642
2600	659	660	661	662	662	663
2650	680	681	682	683	683	684
2700	701	702	703	704	704	705
2750	722	723	724	725	725	726
2800	743	744	745	746	746	747
2850	764	765	766	767	767	768
2900	785	786	787	788	788	789
2950	806	807	808	809	809	810
3000	827	828	829	830	830	831
3050	848	849	850	851	851	852
3100	869	870	871	872	872	873
3150	890	891	892	893	893	894
3200	911	912	913	914	914	915
3250	932	933	934	935	935	936
3300	953	954	955	956	956	957
3350	974	975	976	977	977	978
3400	995	996	997	998	998	999
3450	1016	1017	1018	1019	1019	1020
3500	1037	1038	1039	1040	1040	1041
3550	1058	1059	1060	1061	1061	1062
3600	1079	1080	1081	1082	1082	1083
3650	1100	1101	1102	1103	1103	1104
3700	1121	1122	1123	1124	1124	1125
3750	1142	1143	1144	1145	1145	1146
3800	1163	1164	1165	1166	1166	1167
3850	1184	1185	1186	1187	1187	1188
3900	1205	1206	1207	1208	1208	1209
3950	1226	1227	1228	1229	1229	1230
4000	1247	1248	1249	1250	1250	1251
4050	1268	1269	1270	1271	1271	1272
4100	1289	1290	1291	1292	1292	1293
4150	1310	1311	1312	1313	1313	1314
4200	1331	1332	1333	1334	1334	1335
4250	1352	1353	1354	1355	1355	1356
4300	1373	1374	1375	1376	1376	1377
4350	1394	1395	1396	1397	1397	1398
4400	1415	1416	1417	1418	1418	1419
4450	1436	1437	1438	1439	1439	1440
4500	1457	1458	1459	1460	1460	1461
4550	1478	1479	1480	1481	1481	1482
4600	1499	1500	1501	1502	1502	1503
4650	1520	1521	1522	1523	1523	1524
4700	1541	1542	1543	1544	1544	1545
4750	1562	1563	1564	1565	1565	1566
4800	1583	1584	1585	1586	1586	1587
4850	1604	1605	1606	1607	1607	1608
4900	1625	1626	1627	1628	1628	1629
4950	1646	1647	1648	1649	1649	1650
5000	1667	1668	1669	1670	1670	1671
5050	1688	1689	1690	1691	1691	1692
5100	1709	1710	1711	1712	1712	1713
5150	1730	1731	1732	1733	1733	1734
5200	1751	1752	1753	1754	1754	1755
5250	1772	1773	1774	1775	1775	1776
5300	1793	1794	1795	1796	1796	1797
5350	1814	1815	1816	1817	1817	1818
5400	1835	1836	1837	1838	1838	1839
5450	1856	1857	1858	1859	1859	1860
5500	1877	1878	1879	1880	1880	1881
5550	1898	1899	1900	1901	1901	1902
5600	1919	1920	1921	1922	1922	1923
5650	1940	1941	1942	1943	1943	1944
5700	1961	1962	1963	1964	1964	1965
5750	1982	1983	1984	1985	1985	1986
5800	2003	2004	2005	2006	2006	2007
5850	2024	2025	2026	2027	2027	2028
5900	2045	2046	2047	2048	2048	2049
5950	2066	2067	2068	2069	2069	2070
6000	2087	2088	2089	2090	2090	2091
6050	2108	2109	2110	2111	2111	2112
6100	2129	2130	2131	2132	2132	2133
6150	2150	2151	2152	2153	2153	2154
6200	2171	2172	2173	2174	2174	2175
6250	2192	2193	2194	2195	2195	2196
6300	2213	2214	2215	2216	2216	2217
6350	2234	2235	2236	2237	2237	2238
6400	2255	2256	2257	2258	2258	2259
6450	2276	2277	2278	2279	2279	2280
6500	2297	2298	2299	2300	2300	2301
6550	2318	2319	2320	2321	2321	2322
6600	2339	2340	2341	2342	2342	2343
6650	2360	2361	2362	2363	2363	2364
6700	2381	2382	2383	2384	2384	2385
6750	2402	2403	2404	2405	2405	2406
6800	2423	2424	2425	2426	2426	2427
6850	2444	2445	2446	2447	2447	2448
6900	2465	2466	2467	2468	2468	2469
6950	2486	2487	2488	2489	2489	2490
7000	2507	2508	2509	2510	2510	2511
7050	2528	2529	2530	2531	2531	2532
7100	2549	2550	2551	2552	2552	2553
7150	2570	2571	2572	2573	2573	2574
7200	2591	2592	2593	2594	2594	2595
7250	2612	2613	2614	2615	2615	2616
7300	2633	2634	2635	2636	2636	2637
7350	2654	2655	2656	2657	2657	2658
7400	2675	2676	2677	2678	2678	2679
7450	2696	2697	2698	2699	2699	2700
7500	2717	2718	2719	2720	2720	2721
7550	2738	2739	2740	2741	2741	2742
7600	2759	2760	2761	2762	2762	2763
7650	2780	2781	2782	2783	2783	2784
7700	2801	2802	2803	2804	2804	2805
7750	2822	2823	2824	2825	2825	2826
7800	2843	2844	2845	2846	2846	2847
7850	2864	2865	2866	2867	2867	2868
7900	2885	2886	2887	2888	2888	2889
7950	2906	2907	2908	2909	2909	2910
8000	2927	2928	2929	2930	2930	2931
8050	2948	2949	2950	2951	2951	2952
8100	2969	2970	2971	2972	2972	2973
8150	2990	2991	2992	2993	2993	2994
8200	3011	3012	3013	3014	3014	3015
8250	3032	3033	3034	3035	3035	3036
8300	3053	3054	3055	3056	3056	3057
8350	3074	3075	3076	3077	3077	3078
8400	3095	3096	3097	3098	3098	3099
8450	3116	3117	3118	3119	3119	3120
8500	3137	3138	3139	3140	3140	3141
8550	3158	3159	3160	3161	3161	3162
8600	3179	3180	3181	3182	3182	3183
8650	3200	3201	3202	3203	3203	3204
8700	3221	3222	3223	3224	3224	3225
8750	3242	3243	3244	3245	3245	3246
8800	3263	3264	3265	3266	3266	3267
8850	3284	3285	3286	3287	3287	3288
8900	3305	3306	3307	3308	3308	3309
8950	3326	3327	3328	3329	3329	3330
9000	3347	3348	3349	3350	3350	3351
9050	3368	3369	3370	3371	3371	3372
9100	3389	3390	3391	3392	3392	3393
9150	3410	3411	3412	3413	3413	3414
9200	3431	3432	3433	3434	3434	3435
9250	3452	3453	3454	3455	3455	3456
9300	3473	3474	3475	3476	3476	3477
9350	3494	3495	3496	3497	3497	3498
9400	3515	3516	3517	3518	3518	3519
9450	3536	3537	3538	3539	3539	3540
9500	3557	3558	3559	3560	3560	3561
9550	3578	3579	3580	3581	3581	3582
9600	3599	3600	3601	3602	3602	3603
9650	3620	3621	3622	3623	3623	3624
9700	3641	3642	3643	3644	3644	3645
9750	3662	3663	3664	3665	3665	3666
9800	3683	3684	3685	3686	3686	3687
9850	3704	3705	3706	3707	3707	3708
9900	3725	3726	3727	3728	3728	3729
9950	3746	3747	3748	3749	3749	3750

The guidelines include a self-support reserve that ensures that obligors have sufficient income to maintain a minimum standard of living based on the 2014 federal poverty level for one person (\$973.00 per month.) for obligors with an adjustment gross income of less than \$1,097.00 the Guidelines require, absent a deviation, the establishment of a minimum support order (\$50). For obligors with adjusted gross incomes above \$1,097.00, the Schedule of Basic Support Obligations incorporates a further adjustment to maintain the self-support reserve for the obligor. If the obligor's adjusted gross income falls within the shaded area of the Schedule and Worksheet A is used, the basic child support obligation and the obligor's total child support obligation are computed using only the obligor's income. In these cases, childcare and health insurance premiums should not be used to calculate the child support obligation. However, payment of these costs or other extraordinary expenses by either parent may be a basis for deviation. This approach prevents disproportionate increases in the child support obligation with moderate increases in income and protects the integrity of the self-support reserve. In all other cases, the basic child support obligation is computed using the combined adjusted gross incomes of both parents.

TN (exceptions to the minimum order and deviation for parents when goal is unification in non-parent caretaker cases)

Minimum Child Support Order.

(b) This provision does not apply:

1. If the obligor's only source of income is Supplemental Security Income (SSI);
2. When the federal benefit for a child results in a calculation of support owed to be less than the minimum amount; or
3. When the parenting time adjustment results

SECTION 4: IMPACT OF UPDATED SCHEDULE

This section explores the impact of updating the schedule two ways:

- Comparing the existing and proposed schedule amount to those of neighboring states; and,
- Using the findings from the case file data to assess the impact of updating the schedule, particularly in the areas of the schedule where the changes would be 10 percent or more.

STATE COMPARISONS

Exhibit 10 shows the states compared and the selected characteristics of those states.

- All of the states base their guidelines schedule/formula on gross income except Florida and Mississippi. 2020 federal and Alabama income tax rates and FICA are used to convert gross incomes to net to calculate Florida and Mississippi amounts.
- All of the states rely on the income shares model except Mississippi. Income shares guidelines consider both parents' incomes in the calculation of support. Research indicates that guidelines models generally do not affect order amounts at middle incomes; however, flat percentage of obligor income guidelines produce larger amounts at higher incomes.²⁹
- Alabama, Arkansas, Louisiana, and Tennessee base their guidelines on a BR study. Both Louisiana and Arkansas rely on the fourth BR study. Alabama and Tennessee rely on the second BR study. Georgia takes the average of the second BR study and another methodology that is known to produce higher measurements of child-rearing expenditures. Florida bases its schedule on a 1984 study of child-rearing expenditures. The economic basis of Mississippi is unknown.
- Although most of the states have below average price parities, only Alabama and Arkansas child support schedules/formulas are explicitly adjusted for lower income/prices.
- With the exception of Florida, all of the states have incomes, rents and price parities below the median national level. Alabama has the third lowest price parity among states.
- Exhibit 10 also contrasts the minimum wage in effect in a state to that state's median wage of food preparation workers in May 2019. Federal regulation (45 C.F.R 302.56 (h)(1)) requires the consideration of labor market information in the review of a state's guidelines. When a child support order is established and a parent has little employment history or work experience, income is often imputed at minimum wage. The education and experience requirements of food preparation workers are generally low, so if their average wage is much higher than the minimum wage, it may be reasonable to impute a higher income at least prior to the Covid-19 pandemic that vastly increased unemployment rates. The Accommodations and Food Services industry has been hard hit

²⁹ For example, see Jane C. Venohr. (Apr. 2017). "Differences in State Child Support Guidelines Amounts: Guidelines Models, Economic Basis, and Other Issues. *Journal of the American Academy of Matrimonial Lawyers*.

by the pandemic, so their unemployment rates are than the statewide averages.³⁰ Alabama data alone shows a 33 percent drop in employees in the leisure and hospitality industry from July 2019 to July 2020.³¹ Besides the wage rate and the unemployment rate, the usual hours worked in these low-wage occupations matter when imputing income. In July 2020, all Alabama workers employed privately worked an average of 35.7 hours per week with those employed in the leisure and hospitality industry working an average of 27.3 hours per week.³²

EXHIBIT 10: COMPARISON OF SELECTED CHARACTERISTICS AMONG NEIGHBORING STATES								
	US	AL	AR	FL	GA	LA	MS	TN
Income Base	N.A.	Gross	Gross	Net	Gross	Gross	Net	Gross
Guidelines Model	N.A.	Income shares	Income Shares	Income shares	Income shares	Income shares	% of income	Income shares
Economic Study and Price Levels	N.A.	BR2 (2007) adjusted for AL incomes	BR4 (2019) adjusted for AR price parity	Espen-shade (1991)	Average of BR2 and Betson-Engel (2006)	BR4 (2019)	Unknown	BR2 (2003)
2018 Median Income (2-parents)	\$100,115	\$88,346	\$81,343	\$85,704	\$95,509	\$94,900	\$81,016	\$85,328
2018 Median income (Female householder)	\$ 29,240	\$21,536	\$23,297	\$29,782	\$27,655	\$22,597	\$20,418	\$25,278
2018 Median Gross Rent	\$1,058	\$788	\$731	\$1,182	\$1,008	\$854	\$777	\$861
Minimum Hourly Wage³³	\$7.25	\$7.25	\$10.00	\$8.56	\$7.25	\$7.25	\$7.25	\$7.25
Median hourly wage of food preparation worker (May 2019) ³⁴	\$11.92	\$9.23	\$10.60	\$11.51	\$10.27	\$8.93	\$8.97	\$9.20
Unemployment Rate								
• July 2020 ³⁵	10.2%	7.9%	7.1%	11.3%	7.6%	9.4%	10.8%	9.5%
• July 2019	3.7%	3.3%	4.9%	3.3%	3.6%	4.3%	5.1%	3.5%
Price Parity	100.0	86.4 (3 rd lowest)	86.4 (2 nd lowest)	100.6	93.0	89.1	86.0 (lowest)	89.9

³⁰ Statistics of this level of detail are not available yet.

³¹ Alabama Department of Labor. (July 2020.) *Alabama Labor Market Information*. Retrieved from <http://www2.labor.alabama.gov/Newsletter/LMI%20Newsletter.pdf>

³²Ibid. page 6.

³³ U.S. Department of Labor. (n.d.). *State Minimum Wage Laws*. Retrieved from <https://www.dol.gov/agencies/whd/minimum-wage/state>

³⁴ U.S. Bureau of Labor Statistics. (n.d.) Retrieved from https://www.bls.gov/oes/current/oes_nat.htm#35-0000.

³⁵ U.S. Bureau of Labor Statistics. (n.d.) Retrieved from <https://data.bls.gov/search/query/results?cx=013738036195919377644%3A6ih0hfrgl50&q=state+unemployment+rate>

The median earnings of Alabama workers by highest educational attainment and gender are used to develop case scenarios to compare the existing schedule to updated schedules. Earnings are reported for five levels of educational attainment by the U.S. Census 2018 American Community Survey.³⁶ It is assumed that the median earnings of the parent receiving support are those of a female worker in Alabama and the median earnings of the obligated parent are those of a male worker in Alabama.³⁷ There are no adjustments for special factors such as adjustments to income for additional dependents, the cost of the child's health insurance premium, or other factors.

In addition, three other scenarios are considered. The first scenario assumes that each parent's income is equivalent to full-time, minimum wage (\$7.25 per hour). The last three scenarios consider high income.

EXHIBIT 11: SUMMARY OF CASE SCENARIOS		
Case Scenario	Gross Income of Obligated Parent	Gross Income of Receiving Parent
1. Each parent earns full-time, minimum wage	\$1,257/mo	\$1,257/mo
2. Parent's earnings are equivalent to median earnings of Alabama workers with less than a high school education	\$2,250/mo	\$1,666/mo
3. Parent's earnings are equivalent to median earnings of Alabama workers whose highest education attainment is a high school degree or GED	\$2,779/mo	\$2,156/mo
4. Parent's earnings are equivalent to median earnings of Alabama workers whose highest education attainment is some college or an associate degree	\$3,547/mo	\$2,619/mo
5. Parent's earnings are equivalent to median earnings of Alabama workers whose highest education attainment is a college degree	\$5,232/mo	\$3,653/mo
6. Parent's earnings are equivalent to median earnings of Alabama workers whose highest education attainment is graduate degree	\$6,796/mo	\$4,201/mo
7. High-income (combined income of \$15,000/mo)	\$7,500/mo	\$7,500/mo
8. High-income (combined income of \$20,000/mo)	\$12,000/mo	\$8,000/mo

Exhibits 12, 13 and 14 compare the order amounts for one, two and three children. Based on the analysis of ALECS case file data, the majority of orders are for one child. The patterns for three children will be similar for four and more children.

³⁶ U.S. Census data is retrieved from <https://www.census.gov/data/tables.html>.

³⁷ According to national data, over 80 percent of custodial parents are females.

Exhibit 12: Case Scenario Comparisons: One Child

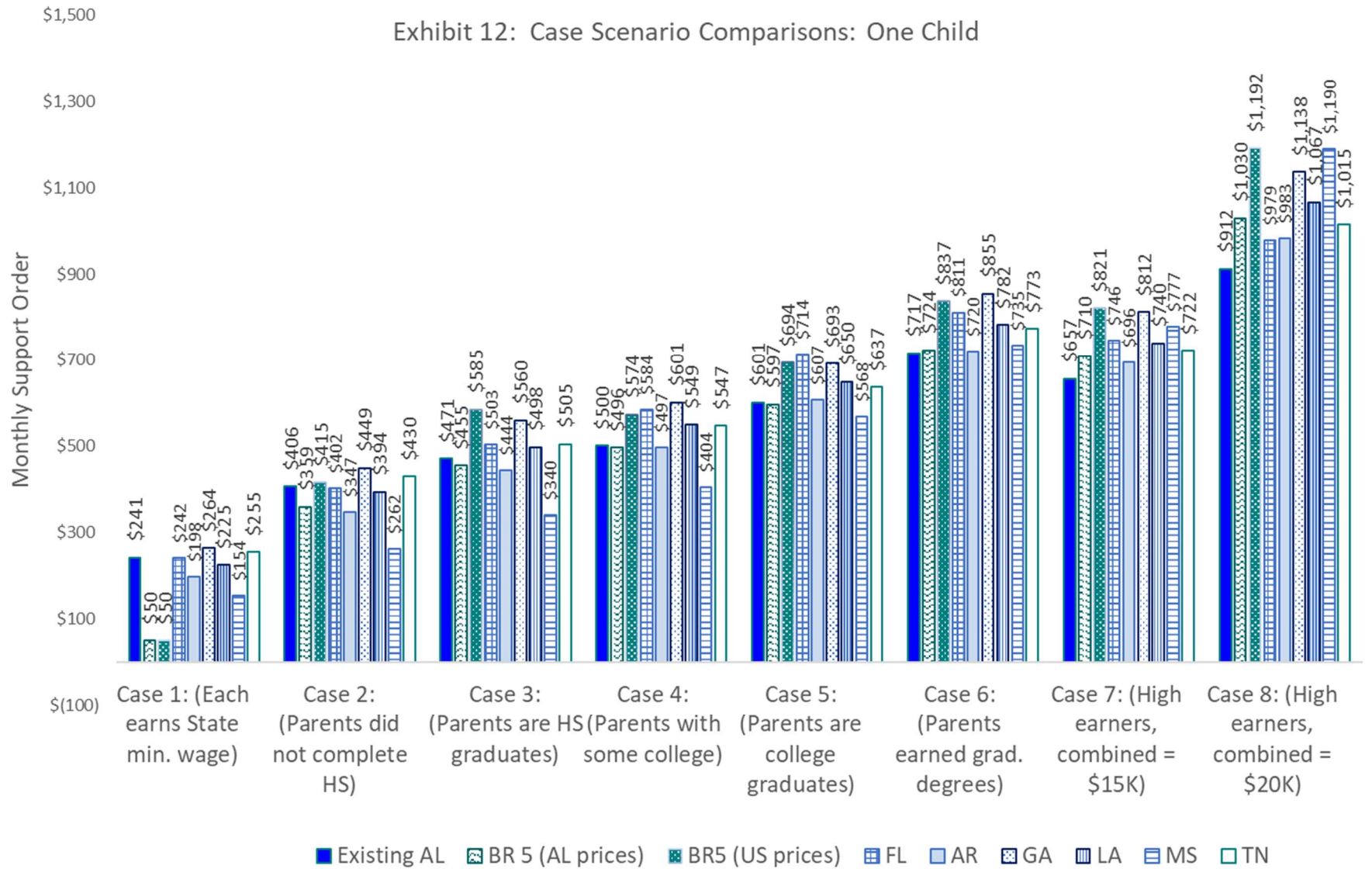


Exhibit 13: Case Scenario Comparisons: Two Children

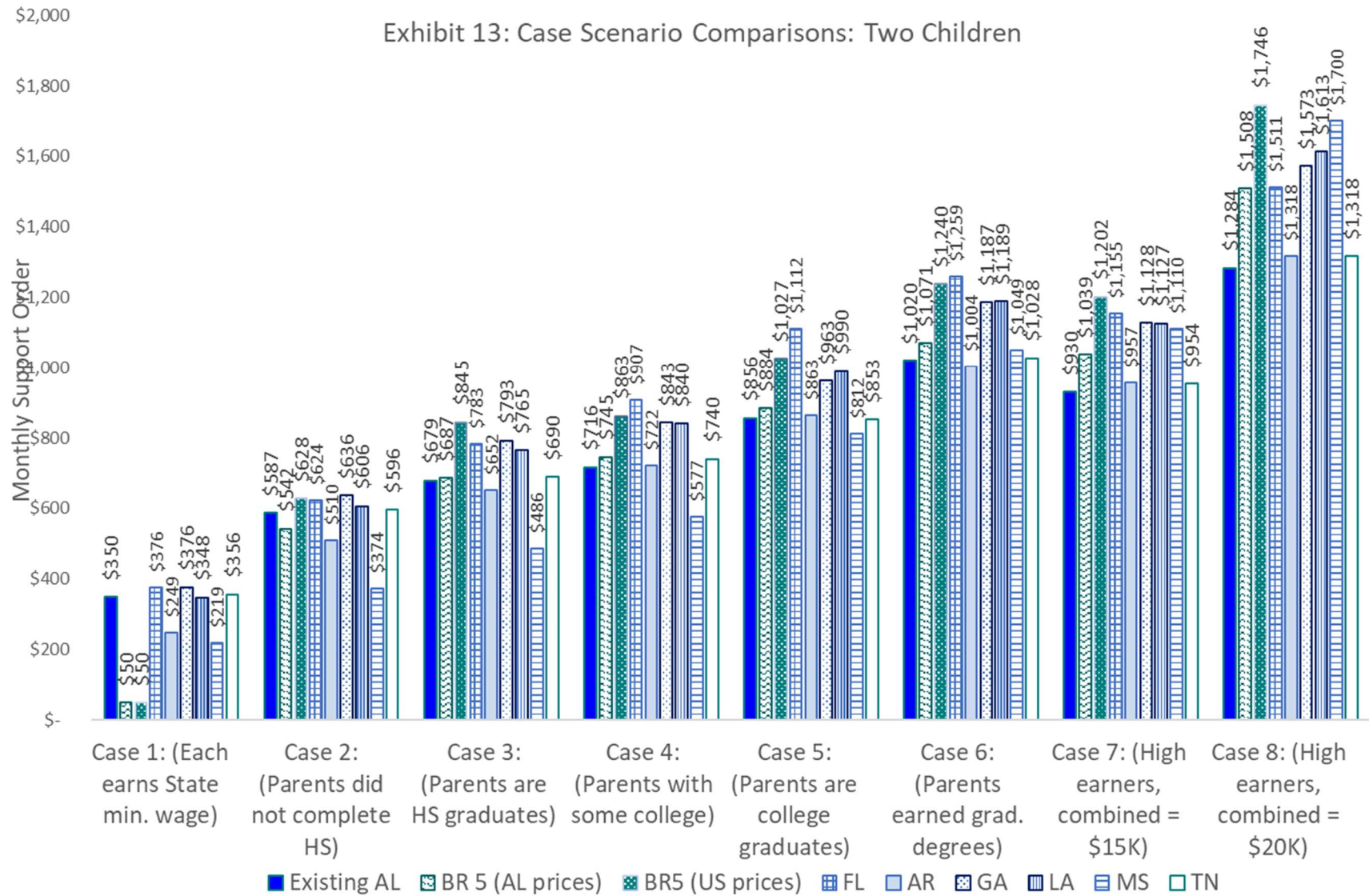
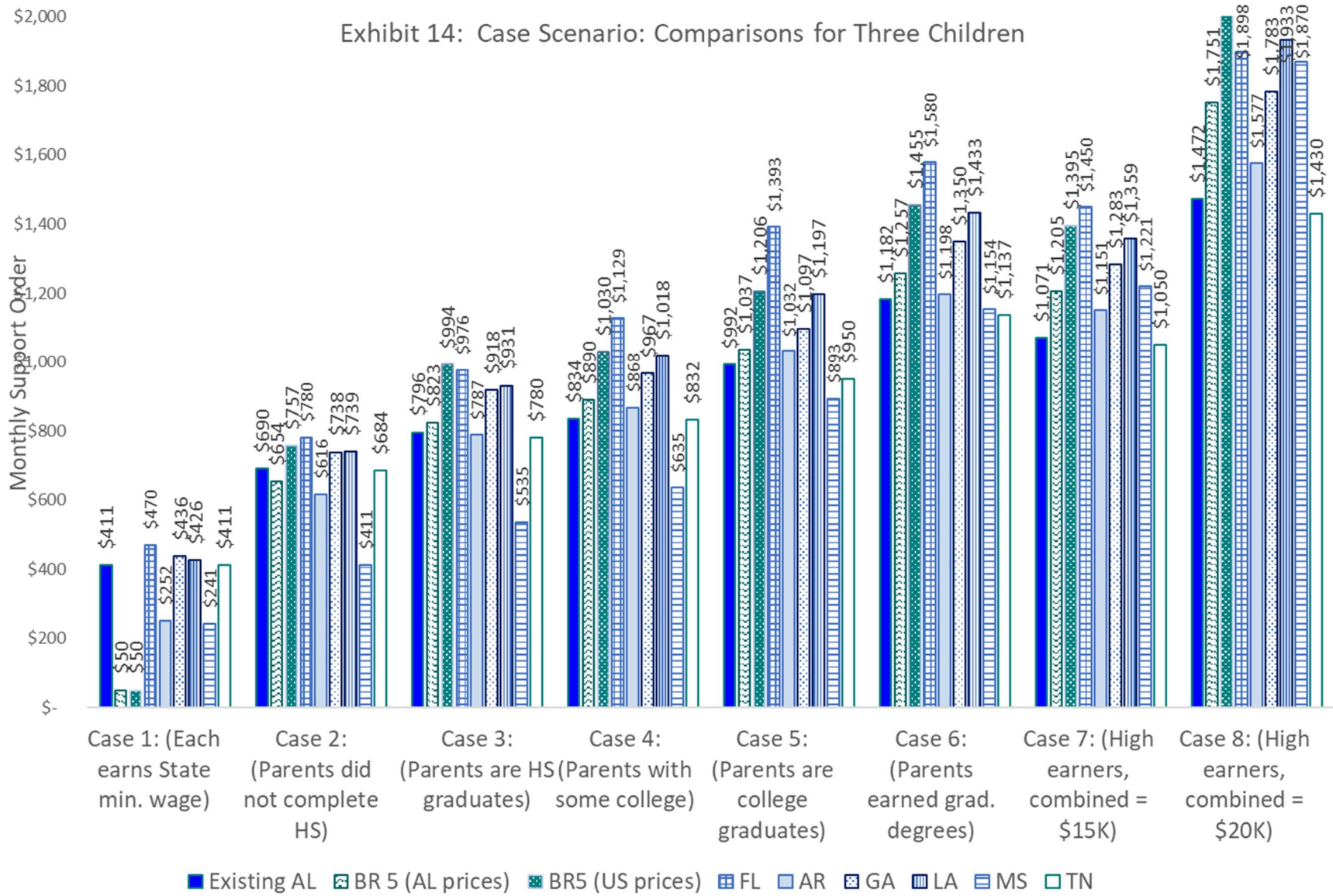


Exhibit 14: Case Scenario: Comparisons for Three Children



There are several major findings from the comparisons.

- *All of the existing Alabama amounts and proposed amounts are within range of neighboring states.* The notable exception is Case 1.
- *Case 1 (minimum wage earners) produces decreases under all updated schedules due to the increase in the self-support reserve.* The amounts of the self-support reserve and minimum order are policy decisions. The committee could also recommend a different low-income adjustment method.
- *Case 2 (median earnings of those without a high school diploma).* Updating the Alabama schedule for BR5 adjusted for Alabama's price parity would produce significant decreases, but the proposed amounts are within range of other states particularly Arkansas and Mississippi, which also have low price parities.
- *Cases 3, 4 and 5 (median earnings of those whose highest education attainment is a high school diploma, some college, or college degree, respectively).* Updating the Alabama schedule for BR5 adjusted for Alabama's price parity would produce a small decrease for one child, but small increases for two and three children.
- *Cases 6, 7, and 8 (higher income cases).* Updating the Alabama schedule for BR5 adjusted for Alabama price parity would produce increases for all number of children. The increases are more substantial the higher the income and when there are more children.

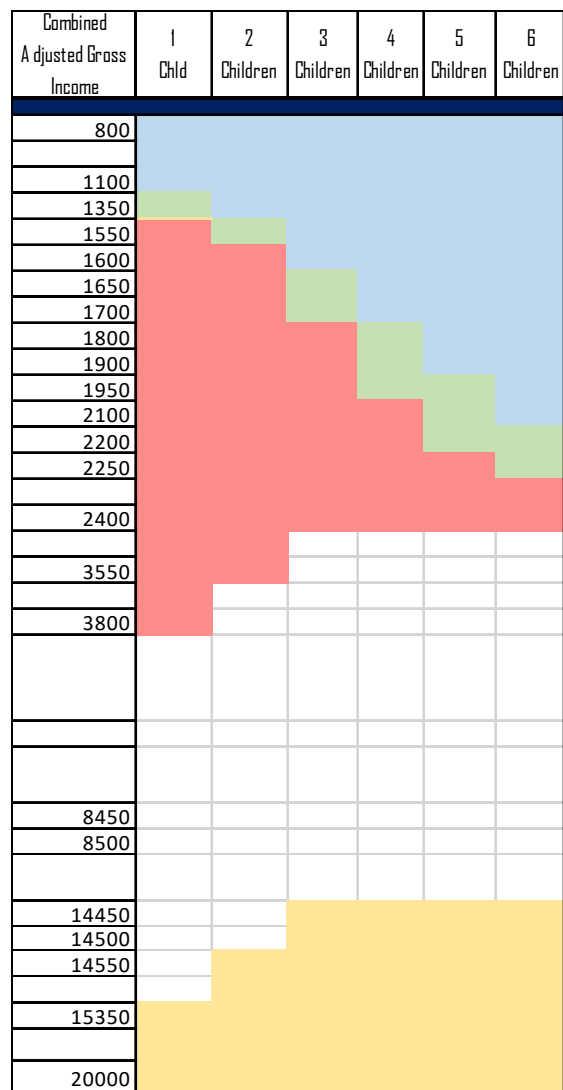
IMPACT OF SCHEDULE UPDATE BASED ON FINDINGS FROM THE ANALYSIS OF CASE FILE DATA

The above analysis identifies areas of the updated BR5 schedule adjusted for Alabama's price parity that would produce decreases, increases and substantial increases (at least a 10%.) There are two types of decreases:

- Those due to an increase in the self-support reserve to reflect current federal poverty guidelines level for one person; and
- Decreases for due to improvements in the measure of income in the Consumer Expenditure Survey, which is the data source underlying the studies of child-rearing expenditures, and the switch to price parity.

The exhibit below shows the percentages of orders with recorded guidelines calculations on the Alabama automated system (ALECS) that fall into these areas. Note that the orders with recorded guidelines calculations are less likely to be private cases and more likely to involve lower-income parents. The consequences are that the percentage of statewide orders in the self-support reserve area is likely to be overstated (assuming income is not imputed), the percentage of statewide orders in the area affected by the proposed increases to the self-support reserve is likely to be overstated, the

percentage of statewide orders in the red area is likely to be overstated, and the percentage of statewide orders with increases is likely to be understated. Consideration of income imputation would further affect these biases.



Blue is area where current self-support reserve applies. Five percent of all ALECS orders with recorded guidelines calculations fall into this area, the future percentage may be more as Alabama adopts and begins implementing federal requirements on income imputation.

Green is area where increased self-support reserve would apply.

Red is area where decreases of at least 10 percent would apply under the BR5 schedule adjusted for Alabama's price parity. Almost half (49%) of ALECS orders with recorded guidelines calculations fall into this area. The future percentage is also likely to be different when Alabama adopts and begins implementing federal income imputation. A large share of obligated parents in the red area have minimum-wage incomes.

Yellow is area where increases of at least 10 percent would apply under the BR5 schedule adjusted for Alabama's price parity. Only two of the ALECS orders with recorded guidelines calculations fall into this area. This undoubtedly reflects that ALECS is not representative of the state and tends to represent lower income cases.

SECTION 5: CONCLUSIONS AND NEXT STEPS

Alabama's existing child support schedule is based on economic data available in 2007. There are several new studies of child-rearing expenditures available to update the schedule. The studies vary in their data years and methodologies used to separate the child's share of expenditures from total household expenditures. The one that makes the most sense to Alabama is the newest Betson-Rothbarth measurements (BR5) since the existing Alabama schedule is based on an older BR study. There is no overwhelming reason for Alabama to adopt another economic study as the basis of the child support schedule.

A concern with adopting an updated schedule based on BR5 is it will produce some decreases, particularly decreases larger than 10 percent. Despite increases in price levels and families having more spendable income due to decreased federal tax rates, the decreases result from three proposed factors:

- Proposed increases to the self-support reserve for changes to the federal poverty guidelines for one person since the existing schedule was developed, which affects very low incomes; and
- Technical improvements to the Consumer Expenditure Survey (CES), which is the underlying source of expenditures data; and
- Changes in the method and underlying data used to adjust the BR5 measurements (which consider national data) for Alabama's lower incomes/prices. The existing schedule adjusted earlier BR measurement using income differences between Alabama and the U.S. average noted in 2005 Census data. The proposed adjustment method uses Alabama's price parity, which is a new measurement. CPR believes that price parity is a better method and measurement to use to adjust for Alabama's lower incomes and prices.

Besides decreases at lower incomes, the proposed BR5 schedule adjusted for Alabama's price parity suggests increases of 10 percent or more at very high incomes (combined incomes above about \$15,000) per year. The increase is due to changes in price levels, more after-tax income available for expenditures at higher incomes due to federal tax reform, and improvements to the CES.

For middle incomes, the proposed BR5 schedule produces changes less than 10 percent.

When compared to other studies of child-rearing expenditures and guidelines amounts of neighboring states, the existing Alabama amounts and proposed changes are within reason. The proposed changes are favored due to more current and better economic data.

Besides the economic study underlying the schedule there are other data and assumptions considered in the updated schedule. They include the guidelines models; method to adjust for Alabama's lower income/cost of living; method to adjust for federal and state income taxes and FICA; the amount of ordinary, out-of-pocket medical expenses to include in the schedule; consideration of the expenditures to net income ratio; and the low-income adjustment, which includes the amount of the self-support reserve, the minimum order amount (which is now \$50 per month), and the adjustment method. There is no overwhelming reason to change any of these assumptions from that used to develop the BR5

schedule adjusted for Alabama's price parity except for the low-income adjustment. Those assumptions changes that would produce higher amounts would be using a different methodology/data to adjust for Alabama incomes/prices; assuming all income is taxed at the rate of a two-parent family rather than single person or head of household; assuming all after-tax income is spend; and eliminating the cap on expenditures for low incomes. One assumption change that would lower amounts would be to eliminate any inclusion of out-of-pocket, ordinary medical expenses. It would produce a very small change. The assumptions underlying the low-income adjustment (*i.e.*, the amount of the self-support reserve, the amount of the minimum order, and the adjustment method) could produce increases or decreases.

RECOMMENDED NEXT STEPS

1. The committee review the economic studies and decide whether it is the best interest of Alabama children and families to update the schedule for an economic study. The committee may consider the impact to the schedule changes, particularly those noted in Exhibits 12, 13, and 14 on pages 26-28 and on page 29 when deliberating.
2. The committee review the other seven factors considered in updating the schedule (See Exhibit 8 on page 16) and discuss whether any of the assumptions should be changed noting the impact of changing the assumption and the appropriateness to Alabama children and families.
3. The committee should carefully consider the low-income adjustment (*i.e.*, the self-support reserve amount, the minimum order amount, exceptions to the minimum order amount, and the method for adjusting for low income). This is discussed on pages 20-22. One issue of concern based on preliminary analysis of ALECS case file data are order amounts in non-parent caretaker cases. Some states provide for no order or a minimum order when the permanency plan for the child is family reunification. The case file data suggests that lower amounts are sometimes being ordered in these cases but data are insufficient to tell the consistency and basis of any variations.

Next Steps for CPR

Based on the direction of the committee/Court, CPR will finalize a proposed, updated schedule with a placeholder for possible changes to the low-income adjustment. CPR will develop side-by-side comparisons of this schedule to the existing schedule. In addition, CPR will complete its analysis of the ALECS case file data and provide other findings on the analysis of labor market data.